CONVENTION CENTER HOTEL: MARKET IMPACT STUDY



EXECUTIVE SUMMARY REPORT

StrategicAdvisoryGroup

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INTRODUCTION

The Portland metropolitan area is currently considering a private-sector development proposal to build a new 600-room convention hotel ("convention hotel" or "OCC hotel") proximate to the Oregon Convention Center (OCC). As part of the process, the governing bodies charged with assessing the merit of the proposal, including Metro, the City of Portland, Multnomah County, and the Portland Development Commission, sought additional information on key issues to assist in that effort. The key issues include:

- Is OCC achieving its goals?
- What is the State of the Convention & Hotel Industry?
- Does proposed OCC hotel make difference in Portland?
- Is OCC Hotel a good ROI for Portland?
- Is the Hyatt/Mortenson proposal reasonable?
- Do Convention Hotels impact existing hotel markets?
- What could be the impact of the proposed hotel in Portland?

This summary report is an accompaniment to the presentation found in Appendix A, and provides supporting research and conclusions that address each of these issues.

OCC PERFORMANCE

According to the mission statement of the Oregon Convention Center, it was built "to maximize economic benefits for the metropolitan region and the state of Oregon while protecting the public investment in the facility."

Since its opening, the OCC has engaged professional firms to calculate the economic benefits generated by the facility. According to these firms, (including CIC Research, KPMG, and Crossroads Consulting), the cumulative direct economic impact of the OCC is approximately $4.7 billion from 1989 through 2011. This sum excludes the direct and indirect tax revenues generated as well as the indirect or "multiplier" economic spending, and estimates solely the new dollars that were brought into Portland as a result of the OCC's construction and operations.

The total cumulative cost to build and operate the OCC, including the total budget for the original construction, the expansion, and the operating shortfalls for the same period from 1989 to 2011 is approximately $424 million.

Although the OCC has accomplished its goal as outlined in its mission statement, lost business reports suggest that the lack of a nearby convention hotel is limiting the OCC from generating potentially substantial increases in its economic impact.

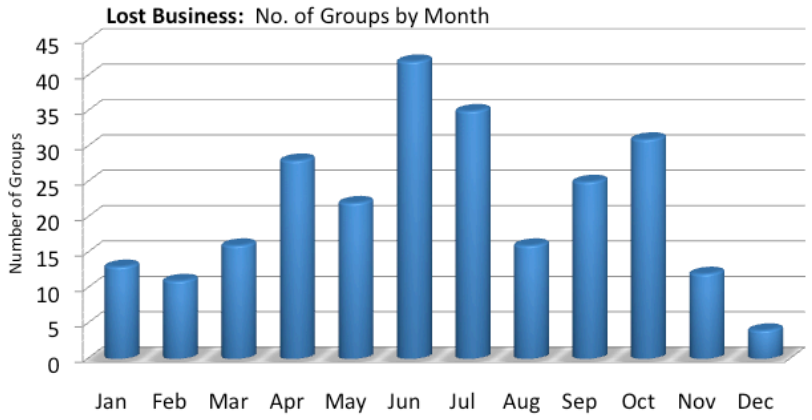
Lost Business

SAG reviewed the lost business reports supplied by Travel Portland. These reports tracked those clients who cited the lack of a convention center hotel as the primary reason for them not selecting Portland. The reports included meetings dates requested by clients from 2006 to 2018.

The reports indicate that over the past five years of tracking this data over 1,000,000 room nights have potentially been lost due the lack of a competitive citywide hotel package.

SAG also reviewed the historic conversion rate for all meetings business that expresses interest in Portland actually holding their meeting or convention in Portland. According to Travel Portland data, approximately 22% of the groups that have demonstrated interest ultimately hold ("book") their meeting or convention in Portland.

It is also important to note that the meetings that were "lost" met in all months throughout the year, as shown in the graph below. This is significant because there were meetings and conventions that were interested in Portland during times of year when the local hotels typically experience lower average occupancies, such as the off-peak winter months and shoulder seasons.



STATE OF THE INDUSTRY

Before the other issues surrounding the proposed Portland convention hotel were investigated, it was requested that an assessment on the overall industry itself be performed.

According to the Center for Exhibition Industry Research, the recent recession impacted the overall US convention industry with year-over-year percentage decreases of 2.1%, 9.7% and 2.4% in 2008, 2009, and 2010 respectively. This overall or "Total" metric used by CEIR is a compilation of changes in (i) demand for exhibit space, (ii) convention facility revenues, and (iii) number of exhibitors. CEIR reports that overall increases were registered in 2011 and 2012, with 2.7% and 2.9%, respectively

Comparing the long-term historical trends of both the demand for exhibit space and the inflation-adjusted GDP of the United States suggests that the two tend to rise and fall in a correlated way, although the demand for exhibit space is more amplified with higher growth being typical during stronger periods of economic growth, and larger decreases during recessionary periods.

Smith Travel Research estimates that the total revenue generated within the US hotel industry was approximately $138 billion in 2011, near the industry's pre-recession peak of $141 billion in 2008. STR also estimates that the overall US hotel industry generated a net profit of approximately $21.6 billion in 2011, near the industry's estimated total revenue for 2005.

In terms of occupancy and average daily rates (ADR) for the overall US hotel industry, the levels are nearly back to pre-recession highs.

Locally, the Portland hotels within the Central City sub-market currently support a robust average occupancy of approximately 75% in 2012. From 2006 through 2012, the Portland Central City sub-market, which comprises roughly half of the entire market's 14,000 hotel rooms, experienced 10% to 17% occupancy points higher than the national average.

TARGET MARKET SURVEY

The potential impact of the convention hotel was tested through an online survey of OCC targeted clients. Culled from a list of target groups provided by Travel Portland, input from more than 1,100 convention and trade show meeting planners was solicited, including those from the Portland Client Advisory Board, Travel Portland lost business reports, and the Meeting Information Network database (MINT) from Destination Marketing Association International (DMAI). Events were targeted from the MINT database that generate from 800 to 4,000 peak room nights, meet on West Coast, and can fit in the OCC's existing exhibit hall configuration.

Responses

The sample represented a good cross-section of OCC's target groups. During the five-day survey period, responses were received from 135 target market meeting planners. Of these respondents:

- 70 responses were from the MINT database,
- 53 responses were from the Lost Business database, and
- 12 responses were from the Client Advisory Board.

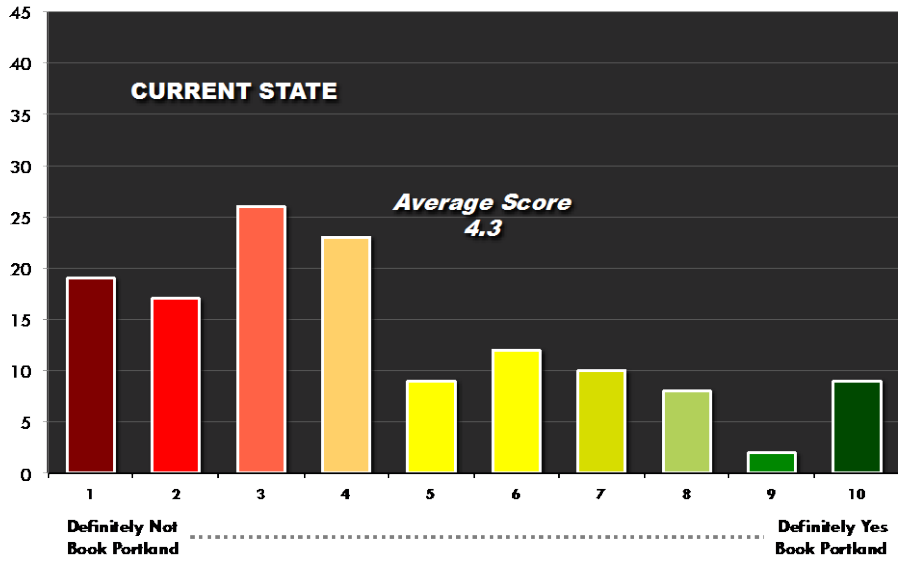
Scenarios

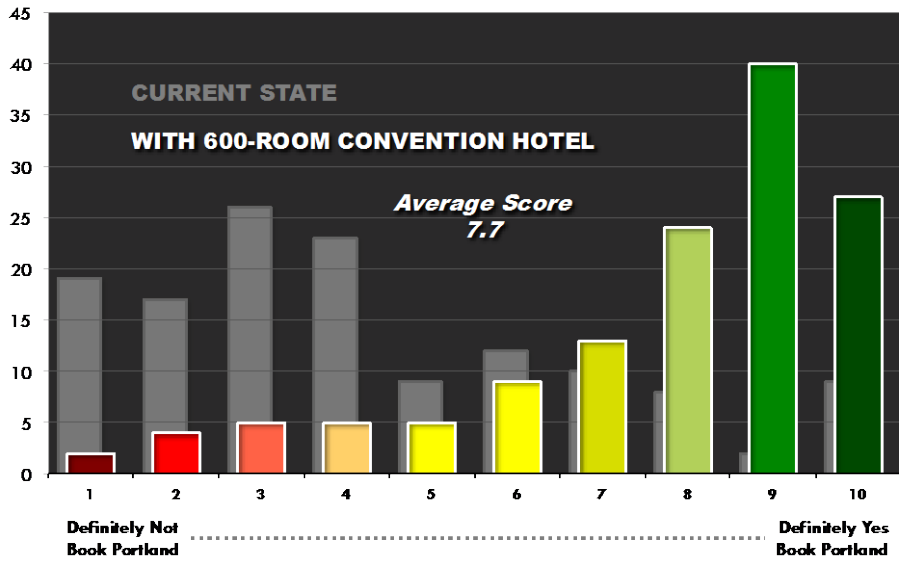
Potential clients were asked to assess their likelihood to book the OCC on a scale from 1 to 10 (with 10 being "Definitely Would Book Portland" and 1 being "Definitely Would Not Book Portland") under the following two scenarios:

1. Given Portland's existing convention and hotel package.
2. If a new 600-room convention hotel were developed directly across the street and offered at least 500 rooms for a room block.

Propensity to Book

The average score of the respondents' likelihood of booking the OCC under the current conditions was 4.3 out of 10. If a new CONVENTION hotel was developed, the average score increased to 7.7, a 79% increase in likelihood of booking the center over the current conditions.



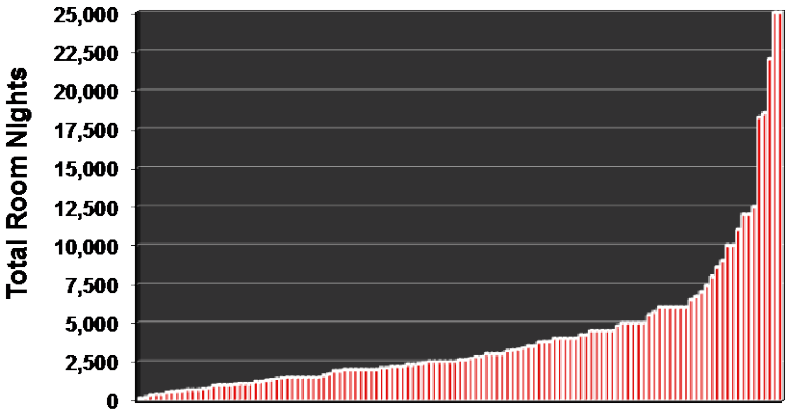


The respondents from the Client Advisory Board and Lost Business lists represented a 107% increase in the likelihood of booking Portland, while the respondents from the MINT list represented a 55% increase.

The scoring data is reinforced when assessing the number of respondents that scored 7-10. With the added hotel, 84% scored the Portland product a 7 or greater.

Total Hotel Rooms

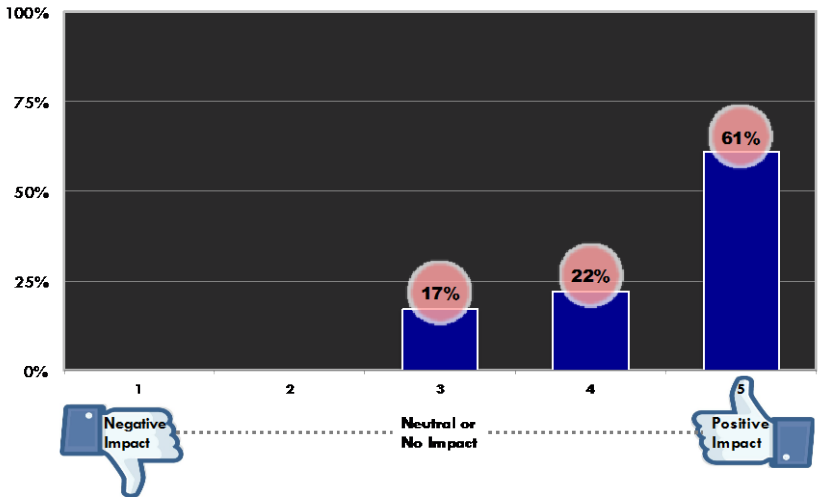
The following graphic shows the total hotel rooms generated over the duration of the respondents' events.



Excluding the outlier events that generate over 20,000 room nights, the events generate an average of 3,600 room nights over the duration of the event. Those respondents scoring a 7-10 with the new hotel averaged 3,900.

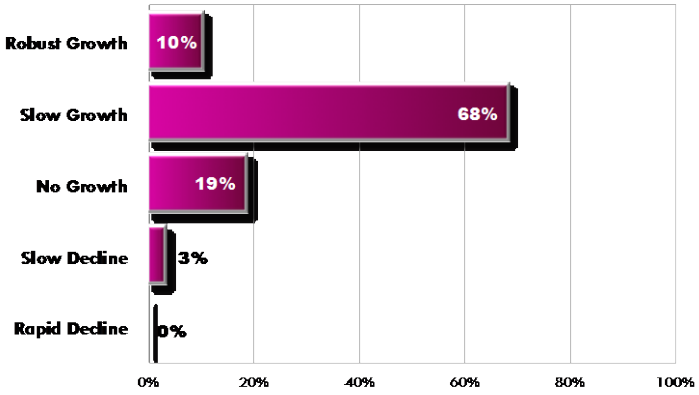
Hotel Brand Preference

The target market was also asked to indicate whether it made a positive, neutral or negative impact on their propensity to book the OCC if the new hotel was branded a Hyatt Regency. Over 80% viewed the Hyatt Regency brand favorably.



Event Growth

Given the recent recession and changes in the economy, the target market was asked to indicate the future growth foreseen for their event, if any. As shown on the graph on the following page, approximately 78% of the respondents indicated their event would witness growth in the future. Approximately 19% estimated no growth and 3% estimated a slow decline in their growth.



Summary

The survey of targeted meeting planners indicated that the development of an additional 600-room convention hotel would increase their propensity to book Portland by approximately 80%. When asked to score their desirability to book Portland in its current state on a scale from 1 to 10, the Portland meetings product scored an average of 4.3. With the addition of a 600-room convention hotel adjacent to the OCC, the meeting planners scored Portland 7.8, an 81% increase. Also important, 84% of the target market respondents scored the improved product (i.e. with the 600-room hotel) a 7 or greater.

When asked about the Hyatt Regency as a potential brand for the new hotel, the majority of the event planners stated this brand would have a positive impact on their propensity to book Portland.

The events represented in the survey are growing. Nearly 78% of the respondents indicated their events would witness slow to robust growth in the future.

ECONOMIC IMPACT OF CONVENTION HOTEL

The development of the CONVENTION hotel will create economic impact in three primary areas:

1. Construction of the project,
2. Operation of the hotel, and
3. Improved performance of the OCC.

This direct construction and operational spending creates economic impact in the City, County and State in the forms of indirect spending, jobs and taxes. Indirect impact is estimated utilizing the IMPLAN economic impact modeling system developed by the Minnesota IMPLAN Group, Inc. The IMPLAN modeling system encompasses a software platform and data sets designed specifically to measure impact on jobs and taxes. This system is widely recognized and utilized by a variety of major federal, state and private organizations.

Spending and Employment Impacts

Though the project is not yet fully designed, the development and construction of the hotel is projected to inject approximately $182 million into the construction industry, as estimated by Mortenson Development, Inc. This includes all labor, materials, and equipment required to complete the project.

In addition to the up-front economic activity surrounding the construction of the hotel, once developed and operational the hotel will generate ongoing annual economic impact. Hotel guests spend both within and outside the hotel. Spending within the hotel was derived from the Mortenson/Hyatt proforma. Guest expenditures outside the hotel were estimated utilizing a Destination Marketing Association International (DMAI) convention delegate spending survey. Outside spending accounts for restaurants, retail, recreation and local transportation.

An analysis of the impact that convention hotels in other markets have had on adjacent convention centers indicates that citywide room nights can increase 0% to 75% with the development of a hotel. Those that have limited or no impact are those where management and policy decisions have changed the focus of the center away from conventions (i.e. Sacramento) or those that opened in 2008 at the beginning of the "Great Recession." Projects that opened during more normalized economic times have reported increases in citywide room nights ranging from 15% to 30%, with the higher impacts also coming as a result in simultaneous convention center expansions.

Travel Portland reported that hotel room nights generated by OCC events have averaged 125,200 over the past three years. The survey of event planners indicated that the addition of a 600-room convention hotel increased the likelihood to book Portland by approximately 80%. Based on survey results, lost business reports, historical Travel Portland sales conversion, and other factors, it was estimated that with the presence of the proposed 600-room convention hotel Portland could increase citywide events by 5 to 10 additional conventions and tradeshows annually. These new events could drive 20,000 to 40,000 new incremental room nights into the market each year, representing an increase of approximately 16% to 32% over the historical average amount of 125,200.

Based on the DMAI survey of event planners, convention delegates spend, on average, $333 per day or per room night while attending a convention in a destination of similar size to Portland. See Exhibit 1.

The annual ongoing operation of the hotel and the incremental OCC citywide room nights are estimated to generate nearly $70 million in direct local spending annually.

Spending Impacts of Proposed Convention Hotel

	Construction	Operations
Spending		
Direct	$182.8m	$69.6m
Indirect & Induced	137.4m	51.6m
Total Spending	$320.2m	$121.2m
Jobs	2,200	950

The incremental room night impact will also impact the OCC directly in both number of events and attendance, which correlate into additional revenues and expenses to the facility. It is assumed the average convention and tradeshow attendance will also increase by 15-30%. Operating revenue impact to the OCC was calculated by multiplying the current average spending per convention and tradeshow attendee, supplied by the OCC, by the incremental attendees. Based on discussions with OCC management, the new revenues were spread accordingly in the various revenue and expense line items that would be impacted. The results are an estimated improvement to the OCC operating deficit of approximately $600,000 to $1.4 million annually.

OCC Operating Budget Projections
Due to Presence of Proposed Convention Hotel

		Projection Increment	
	2011	Low	High
Operating Revenues			
Rental	$3.2	$0.3	$0.7
F&B	10.2	1.0	2.1
Operations	3.8	0.4	0.8
Parking	1.3	0.0	0.0
Other	0.5	0.0	0.0
Total Revenues	$19.0	$1.7	$3.6
Operating Expenses			
General & Admin.	($1.0)	$0.0	$0.0
Sales & Marketing	(3.9)	0.0	0.0
F&B	(8.4)	(0.8)	(1.7)
Operations	(8.6)	(0.3)	(0.5)
Parking	(0.3)	0.0	0.0
Other	(1.8)	0.0	0.0
Support/Risk Mgmt.	(2.6)	0.0	0.0
Total Expenses	($26.6)	($1.1)	($2.2)
Net Income/(Loss)	($7.6)	$0.6	$1.4

Fiscal Impacts

The construction of the hotel and the annual economic activity of the convention hotel, OCC and incremental citywide room nights will generate taxes in the City, METRO, County and State governments. All taxes were estimated based on the spending outlined in the previous section multiplied by the applicable tax (see Exhibit 2).

The taxes generated from the construction and operation of the hotel and the increased performance of the OCC over 30 years (plus 2-3 years for construction of the hotel) are estimated to be as follows:

Fiscal Benefits

	Construction	Operations	Total	NPV
Taxes Over 30 Years*				
City	$1.3m	$93.8m	$95.1m	$21.1m
Other Local	1.1m	16.5m	17.6m	8.4m
Metro	0.0m	13.3m	13.3m	5.2m
County	1.5m	23.4m	24.9m	11.9m
State	6.4m	172.8m	179.2m	80.8m
Total Tax Impact	$10.3m	$319.8m	$330.1m	$127.4m

*Plus 2-3 years of construction.

RETURN ON INVESTMENT

Because the project is at an early stage, the exact financing structure has not yet been determined. More analysis will be required to address public return on investment when the project is nearing the approval stage.

COMPETITIVE SET IMPACT FROM CONVENTION HOTELS

A number of cities across the U.S. have sponsored the development of convention hotels. One question that inevitably arises is – "What will be the impact on the existing competitive hotels if a new public-sector supported convention hotel is developed?" To understand the impact, competitive set market performance measures were analyzed before and after the opening of the convention hotels in ten cities. For each city, a custom Smith Travel Research Trend Report was analyzed to understand the impact on competitive set demand, occupancy and average daily rate ("ADR").

Year Open	Number of Rooms	Hotel
2011	1,005	JW Marriott Indianapolis
2008	757	Hilton Baltimore
2008	1,003	Grand Hyatt San Antonio
2008	1,190	Hilton San Diego Bayfront
2005	1,100	Hyatt Denver Convention Center
2005	616	Marriott Louisville Downtown
2004	1,203	Hilton Americas Houston
2003	800	Hilton Austin Convention Center
2003	700	Westin Charlotte
2003	917	Renaissance St. Louis Grand

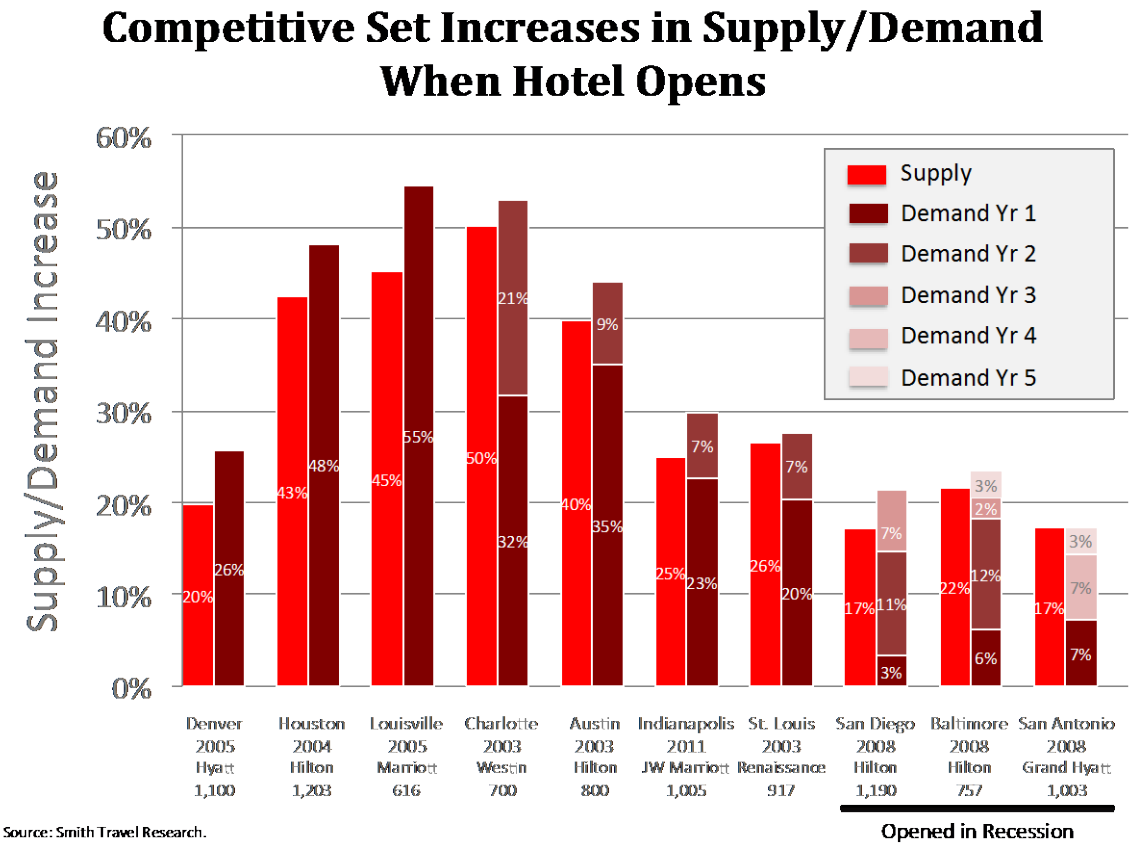
Demand

To understand the relative impact in each market from a demand perspective, the percentage increase in the supply of rooms from the development of the convention hotel was compared to the percentage increase in room night demand in the years following the opening.

- In 3 out of 10 cities where a convention hotel was developed, demand grew greater than supply in the year the convention hotel opened.
- In 7 out of 10 cities, the increase in supply was offset by increases in demand within 1-2 years.

- In the 3 out of 10 hotels where the supply was not absorbed within two years, the hotels opened in 2008 at the beginning of the "Great Recession". For those markets, it took 3-5 years for demand growth to offset supply growth

- In all cases, demand growth exceeded supply growth within 5 years.



Source: Smith Travel Research.

Occupancy

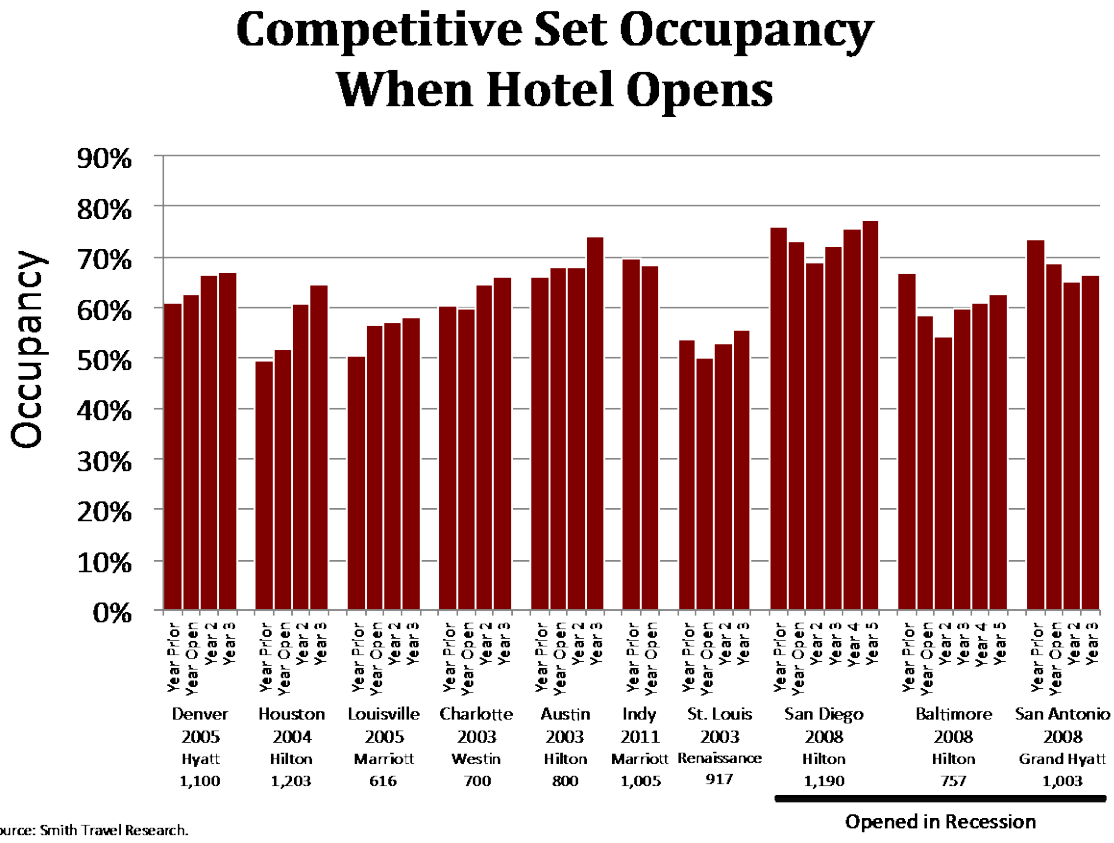
Occupancy is a measure of the relationship of supply to demand and followed a similar pattern to the demand analysis above.

- In 6 out of 10 cases, occupancy in the competitive set increased following the opening of the convention hotel. The seventh, Indianapolis, has only been open one year and occupancy was down 1%.

- The best performer was Houston where competitive set occupancy has risen from just below 50% the year before the Hilton Americas opened to just below 65% in the third year of the convention hotel's opening, a 15 point increase.

- After three operating years, four competitive set occupancies increased 6 to 8 percentage points.

- Occupancy is down 3.7 and 7 percentage points in two of the three markets that opened a convention hotel during the Great Recession.

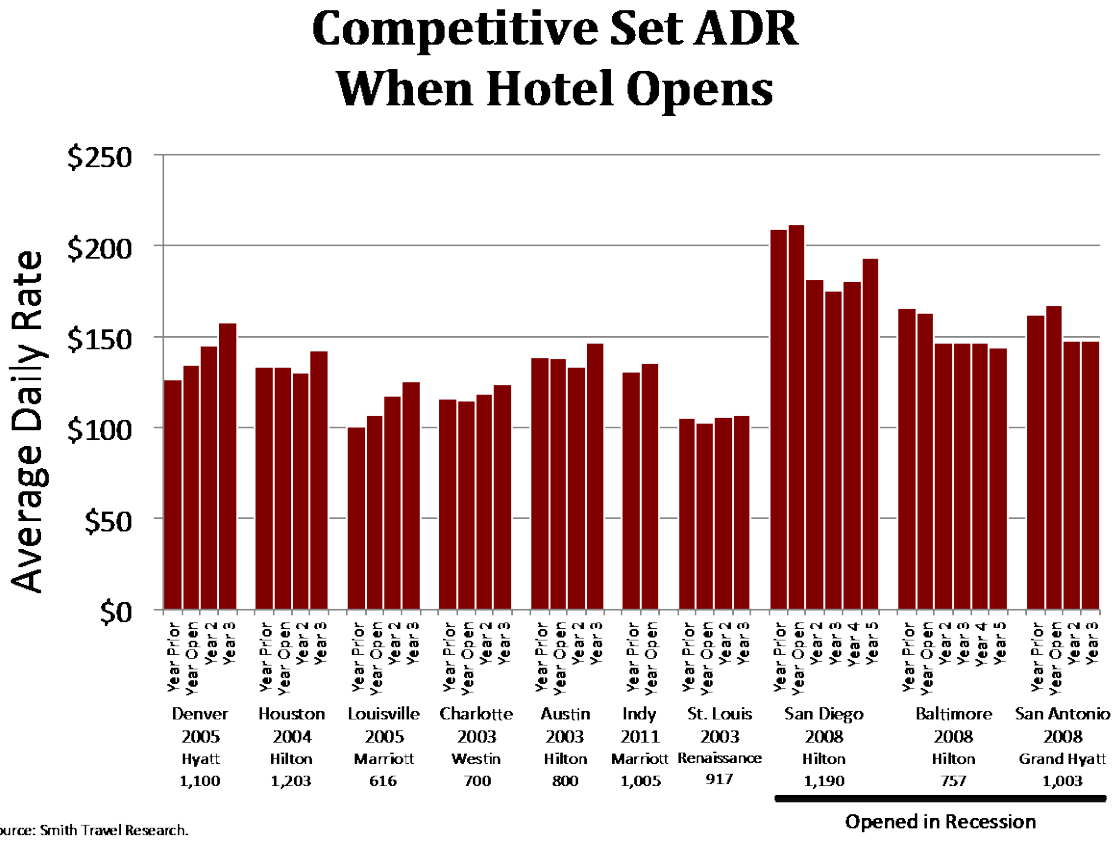


Source: Smith Travel Research.

Average Daily Rate

Average daily rate is defined as "total guest room revenue for a given period divided by the total number of paid occupied rooms during the same period." In the ten competitive set cities, "comp set" ADR followed a similar trend to demand:

- In 6 out of 10 cases, ADR increased over the year the convention hotel opened.
- In 7 out of 10 cases, ADR increased within 3 years over pre-hotel ADR.
- In the 3 markets that opened convention hotels during recession, ADR remains below pre-hotel ADR, driven by the recession and other full-service hotel openings. Both San Diego and San Antonio added approximately 400 additional full-service rooms and Baltimore added approximately 200 additional full-service rooms.



Source: Smith Travel Research.

RevPAR

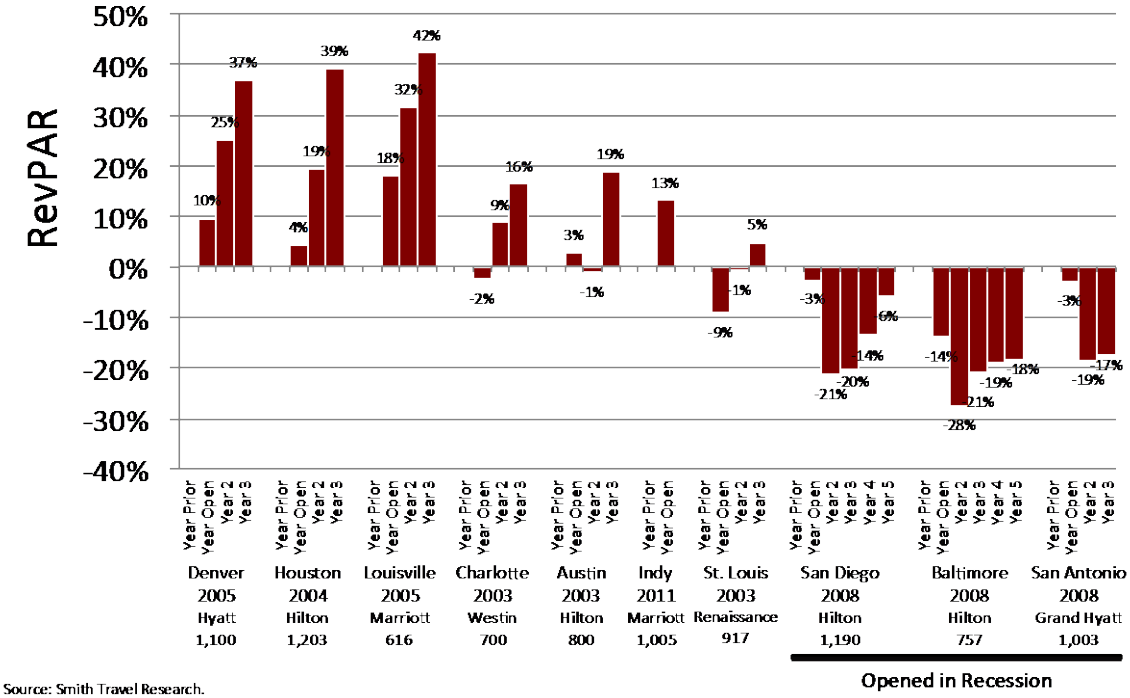
Revenue per available room is ADR multiplied by occupancy. It is the best measure of an overall hotel market's performance.

- In 3 out of 10 cases, RevPAR grew every year after the hotel opened. By the third year after the hotel opened, the RevPAR of the competitive set in these three cities was up 37% to 42%.

- In 4 more cases, RevPAR went down in the first or second year of the hotel opened, but was up 5% - 19% by the third year.

- The US hotel industry's average RevPARs has returned to within 1% to 2% of 2007 pre-recession levels. The hotels that opened during the Great Recession have not faired well. RevPARs went down 20% - 30% in 2008 driven by the combined impact of a worldwide recession and new supply (both convention hotels and other hotels). In these markets RevPAR has not recovered to 2007 levels, operating at RevPARs 6% to 18% below 2007.

Competitive Set Changes in RevPAR When Hotel Opens



Source: Smith Travel Research.

Conclusion

Convention hotels that opened outside of an economic recessionary environment have fared well and contributed to increasing the competitive set's demand, occupancy, and ADR. However those that opened at the beginning of the Great Recession have not fared well, and the combinations of additional supply and recession have lowered performance in the competitive set. While nationwide RevPAR levels have recovered to within 1-2% of 2007 levels, in the markets where convention hotels opened during the recession, RevPARs are still 6% to 18% below 2007 levels.

CONVENTION HOTEL CASE STUDIES

The challenge in building large, full-service hotels began in the 1990s. The early 1990s recession drove an over leveraged commercial real estate market (including hotels), and their savings and loan lenders, into insolvency. Values plummeted, S&Ls failed, and the Resolution Trust Corporation (RTC) ended up with the loan assets. The loan assets were sold in bulk for as little as 25 cents on the dollar to companies that specialized in foreclosing on the loans to obtain the underlying assets for a fraction of their construction cost. Many hotels that were built or were leveraged around that era went through the process, and the new owners controlled an asset for a fraction of its replacement cost, enabling the hotels to operate profitably at lower room rates. This is tantamount to a large federal subsidy to full-service hotels existing prior to the early 1990s.

Development of new full service hotels with rooms, meeting space and restaurants halted. Room rates were too low to provide cash flow to pay debt and equity costs. In general, "new-build" hotels could not make the numbers work while competing against the RTC subsidized hotels.

Also impacting the viability of full-service hotels has been the explosive growth in limited service hotels. These hotels generally build only the rooms, no meeting space, nor restaurant, and generally charge $10± per night less than their full service hotel competitors. Hotel companies and developers quickly learned that the transient (non-group meeting) consumer was willing to pay near full-service hotel rates for a room that was similar to a full service hotel room, but did not offer meeting facilities nor a restaurant. Non-group hotel demand was enticed by these new hotels.

The last large convention hotel to be built, outside of Las Vegas or Orlando, without public participation was the Chicago Sheraton that opened in the early 1990s. Construction costs have risen over time, but room rates have never recovered from the RTC impact. Today, on average, private investors can achieve their return on investment in a convention center hotel only if their basis is approximately two-thirds of the cost to develop. In order

for convention center hotels to be built, the public sector has provided incentives to make the project financially feasible.

So why do public bodies do it? Because the hotel itself will generate significant economic impact and tax revenues to the community. For example, the 1,200 room Houston Americas opened 10 years ago as a 100% City-financed hotel with tax-exempt bonds. In addition, to make the project work the State and City rebated the project generated hotel and sales taxes for a period of ten years.

During the first decade, the hotel did not generate any taxes, but has generated $4 million to $6 million annually in net cash flows that were allocated to other economic development projects. Next year (2013) marks the end of the rebates, and the City and State will be the recipient of over $9 million annually in new tax revenue, a welcomed resource in these economic times. The hotel was absorbed in the competitive marketplace with demand growth greater than the supply growth in the first year the hotel opened. Moreover, the RevPARs of the other existing hotels in Houston that comprise the "competitive set" have risen, generating more tax revenues for the City and State.

See Exhibit 3 for example case studies where convention hotels have been developed over the past decade, including the private versus public involvement.

THE IMPACT ON THE PORTLAND HOTEL MARKET

To gauge the potential impact the proposed 600-room convention hotel could have on the existing hotel market in Portland, SAG created a supply and demand model that was based on the following inputs:

- Actual historical operating data from 2000 to YTD 2012 for the 14,453 hotel rooms that comprise the Portland hotel market as supplied by Smith Travel Research
 - Occupancy (Demand)
 - Average daily rates
 - Number of rooms (Supply)
- Additional hotel supply proposed or planned for the market
 - Two limited service properties totaling 300 rooms opening in 2014
 - The proposed 600-room convention hotel opening in 2015
- SAG's growth assumptions for supply and demand

Base Demand Growth

According to STR, the compound average growth rate (CAGR) of demand for hotel rooms in the entire Portland market was 2.8% from 2000 to YTD 2012. The CAGR was 2.3% and 6.5% for the period of 2005 to 2012 and 2009 to 2012, respectively. For projection purposes, SAG conservatively estimated that the CAGR in base demand in the Portland market would be 2.0% from 2013 through 2019.

Base Supply Growth

In addition to the proposed 600-room convention hotel and the two limited-service hotels currently planned for the market, SAG estimated that four other hotels would open in Portland in the projection period through 2019. For modeling purposes, SAG assumed that one hotel would open in each of the years from 2016 through 2019, for four total new hotels. It was also assumed that the size of these four hotels would be equal to the average hotel property size in the market, or 106 rooms for a total inventory addition of 1,324 rooms during this time period.

New City-Wide Group Demand

Based primarily on the results of the meeting planner surveys and the lost business reports combined with Travel Portland's historical sales conversion rates and reports from Trends Analysis Projections, Inc. or "TAP" analysis (and to a lesser extent the historical results experienced by other destinations that realized a new convention hotel), SAG estimated that Portland could generate an additional 5 to 10 new city-wide convention groups annually with the presence of the proposed 600-room convention hotel. Based on survey results, the average room nights each event brings to its host destination is approximately 4,000. Therefore, it was projected that Portland could garner an additional 20,000 to 40,000 incrementally new room nights in "city-wide" demand as a result of the development of the proposed convention hotel.

New In-house Group Demand

In-house demand consists of smaller groups than "city-wide" events that are self-contained in one hotel property. Hyatt Hotels' worldwide sales office (WWSO) is supported by 147 sales professionals in 22 offices across the globe. Based on their own experience, the Hyatt WWSO estimates that 70,000 new in-house room nights could be brought to Portland via the proposed Hyatt Regency, which would represent approximately 70% of all the group business in the new property. In Denver, the WWSO generated between 70% and 88% of all group business during the first six years of operations at the 1,000-room Hyatt regency Denver. To date, the Hyatt WWSO has generated nearly $200M in in-house group business in the Denver property.

Based on input from Hyatt, SAG estimated that the Hyatt WWSO could generate between 50,000 and 70,000 new in-house group room nights in the Portland market.

Impact on Portland

Based on the above, the net impact of the proposed convention hotel on the average occupancy rate of the entire Portland market would be:

- Year Prior to Convention Hotel Opening: 72.2%
- 1st Year of Convention Hotel Operations: 72.1%
- 2d Year of Convention Hotel Operations: 73.6%

These estimates are based upon the midpoints of the ranges for new demand projections, or 30,000 city-wide and 60,000 in-house new room nights.

The new demand brought on by the presence of the new 600-room convention hotel would also impact the total revenue generated within the market. Based on demand projections, and assuming a 2.0% annual growth in market-wide ADR, incremental hotel room revenue would approximate $52 million in the Portland market during the first five years of convention hotel operations.

SUMMARY

The following briefly summarizes the key issues:

Q: Is OCC achieving its goals?

A: Yes. The OCC accomplishes its mission of generating economic impact for the metro region. Since opening, the facility has generated over $4.7 billion in direct economic impact alone compared with $424 million of public investment.

Q: What is the state of the industry?

A: The convention and the hotel industries have both nearly fully recovered back to near pre-recession highs. Locally, the Portland hotel market exceeds the average US hotel occupancy rate, a trend that began in 2004 and continues today. The average occupancy for the Portland "Central City" sub-market, which comprises approximately 50% of the entire Portland hotel supply, is typically 10% to 17% occupancy points above the national average.

Q: Does the proposed OCC hotel make a difference in Portland?

A: Yes. According to a survey of 135 national and regional meeting planners, the presence of a 600-room convention hotel proximate to the OCC would have a significant impact in their likelihood of selecting Portland to host their event.

Q: Do convention hotels impact the existing hotels?

A: Yes. Case studies show that convention hotels that do not open during the depths of a recession have a positive impact on the existing market, where the new supply is absorbed and then exceeded within the first 1 to 3 years. Those that do open during an economic recession can take 3 to 5 years to be absorbed in the market.

Q: What could be the impact on Portland?

A: It is projected that the proposed new 600-room convention hotel could generate between 70,000 and 110,000 incremental new room nights each year in Portland. The new supply and demand would decrease the average market-wide occupancy level in Portland by 0.1% in year 1 of operations, and increase the average market-wide occupancy by 1.4% in year 2 of operations. The incremental economic impact generated by the new demand brought on by the convention hotel exceeds $120 million annually. The incremental fiscal impact generated by the new demand is projected to average approximately $10 million per year. The incremental financial impact on the operations of the OCC is projected to increase between $0.6 million and $1.4M annually.

- ***Exhibit 1 - Summary of Per Capita Spending Assumptions (2012$)***

Delegate Expenditures	
Lodging	$135.51
Food & Beverage	
Hotel	38.25
Other	33.18
Entertainment & Recreation	12.16
Retail	30.80
Auto Rental	8.46
Transportation	8.09
Other	6.67
Total Delegate	$273.12
Association Expenditures	
Food & Beverage	11.00
Meeting Room/Equipment Rental	5.20
Other	6.78
Total Association	22.98
Exhibitor Expenditures	
Food & Beverage	8.90
Meeting Room/Equipment Rental	8.51
Other	20.05
Total Exhibitor	37.46
Total	$333.56

Source: Destination Marketing.

Exhibit 2 - Summary of Total Tax Impact (2012$)

	Construction	Annual Operations over 30 Years		
			Conv Ctr	
	Hotel	Hotel	Increment	Total
		8.3m	$71.5m	$319.8m

Source: SAG, DMAI, IMPLAN, Multnomah County.

Exhibit 3 – Convention Hotel Case Studies

	Charlotte Westin 2002	Denver Hyatt 2004	Houston Hilton 2004	Louisville Marriott 2005	San Diego Hilton 2008
Rooms	707	1,100	1,200	616	1,190
Development Cost	$143m	$247m	$285m	$100m	$348m
per key	*$202,000*	*$225,000*	*$238,000*	*$162,000*	*$292,000*
Private Investment	$102m	$10m	Key money	$70m	$348m
Public Role	• $16m grant funded from Citywide hotel tax • $25m loan repaid by hotel; credit enhanced by citywide hotel tax	• Financed • City backstop subject to annual appropriation guarantee that increases to $11m annually by year 12	• Financed • 10 yr City and State tax rebates; credit enhanced by citywide hotel tax	• $30m grant monetized project taxes	• Below market long-term land lease
Union Affiliation	Non-Union	Union	Union	Non-Union	Union
Ownership	Private	Public	Public	Private	Private

Source: Hotels, Developers, SAG.

Exhibit 3 – Convention Hotel Case Studies (cont.)

	Ft. Worth Omni 2009	Dallas Omni 2011	Indianapolis JW Marriott 2011	Columbus Hilton 2012
Rooms	614	1,000	1,005	532
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Public Role	• $8m grant • 10 yr City, County, State tax rebates • 18 yr property tax abatement • FWCC catering to developer • Leasing rights of garage retail to developer • Below market land lease	• Financed • 10 yr City and State tax rebates	• $48m grant from monetized project taxes; repaid by hotel generated taxes	• Financed • $15m grant • City and Authority hotel tax rebates • Credit enhanced by • Two hotel land leases • City parking meter revenues • AAA County backstop
Union Affiliation	Non-Union	Non-Union	Non-Union	Non-Union
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Source: Hotels, Developers, SAG.

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Union Affiliation	Non-Union	n/a	n/a	n/a
Ownership	Private	Private	Private	Private

Source: Hotels, Developers, SAG.

APPENDIX A: ORAL PRESENTATION

CONVENTION CENTER HOTEL: MARKET IMPACT STUDY

December 4, 2012

Metro

Strategic Advisory Group

KEY QUESTIONS

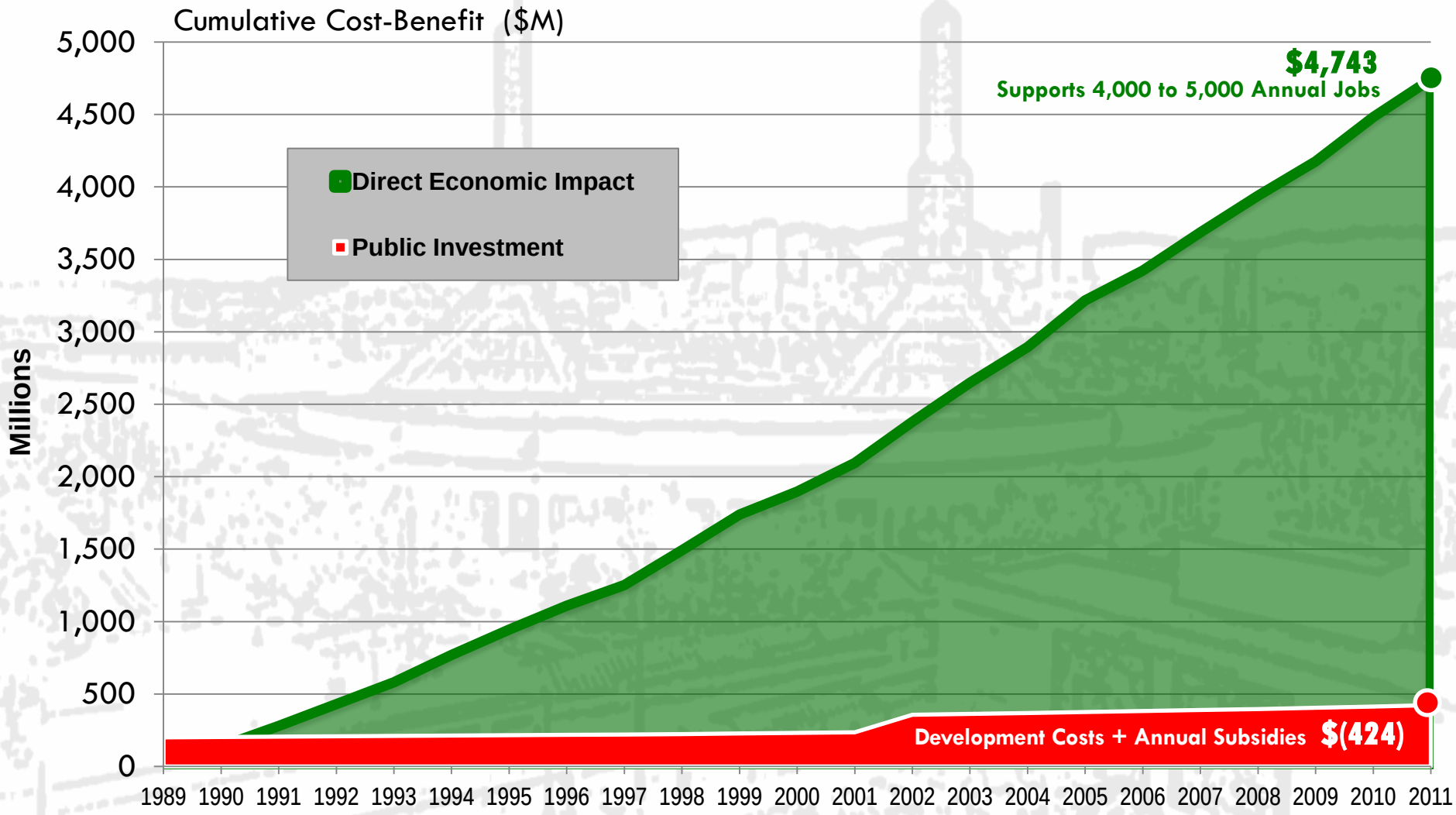
- Is OCC achieving its goals?
- What is the State of the Convention Industry?
- Does OCC Hotel make difference in Portland?
- Is OCC Hotel a good ROI for Portland?
- Is the Hyatt/Mortenson proposal reasonable?
- Do Convention Hotels impact existing hotels?
- What could be the impact in Portland?

Is OCC Achieving Goals?

OCC Mission Statement

"To maximize economic benefits for the metropolitan region and the state of Oregon while protecting the public investment in the facility."

OCC Cost-Benefit



Source: KPMG, Crossroads; CIC Research; OCC; PDC.

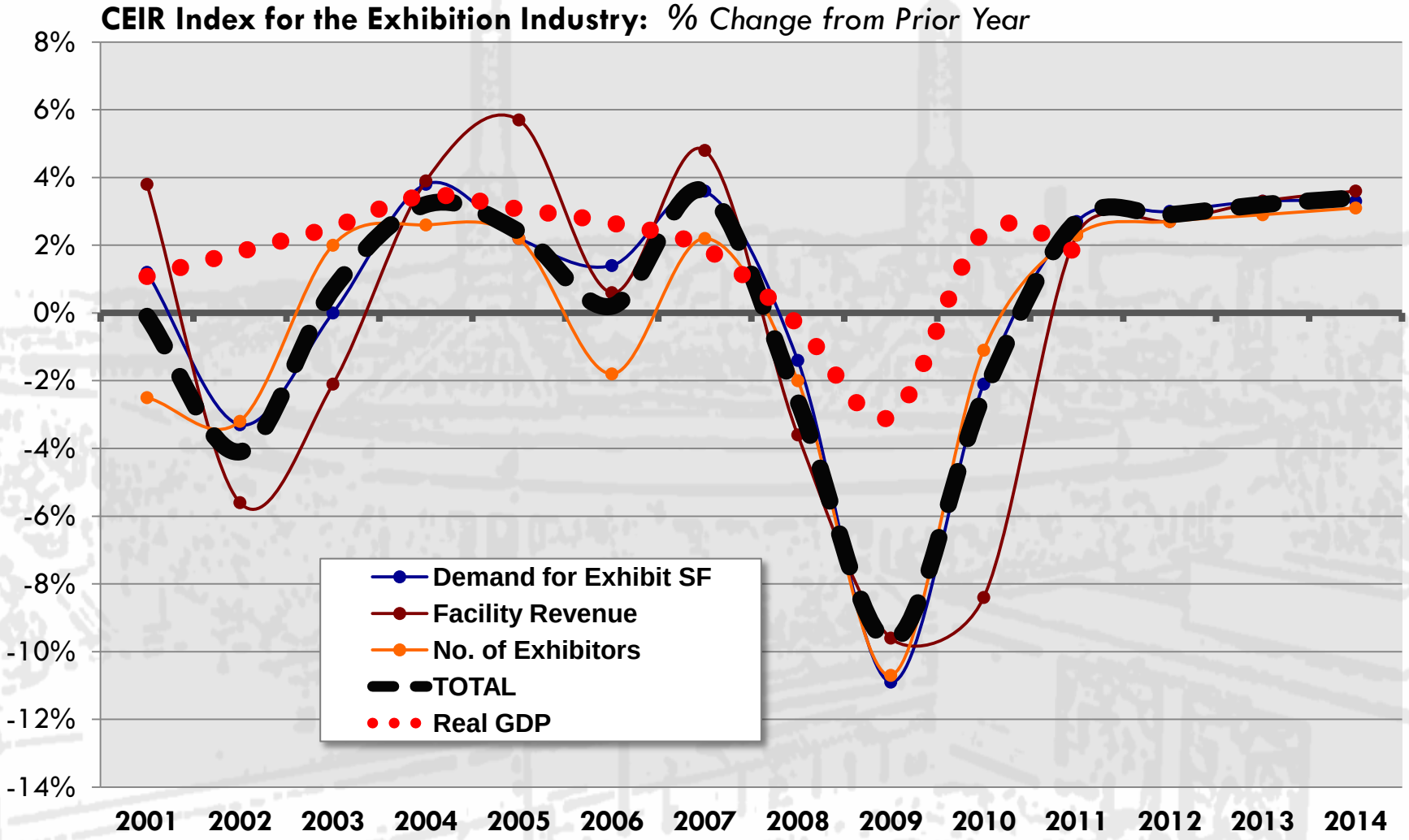
IMPETUS TO STUDY: LOST BUSINESS

- In past 5 years, Travel Portland reports over 1,000,000 potential room nights were lost where lack of "Convention Hotel" was cited as the primary issue by the Event

Source: Travel Portland.

The State of the Industry

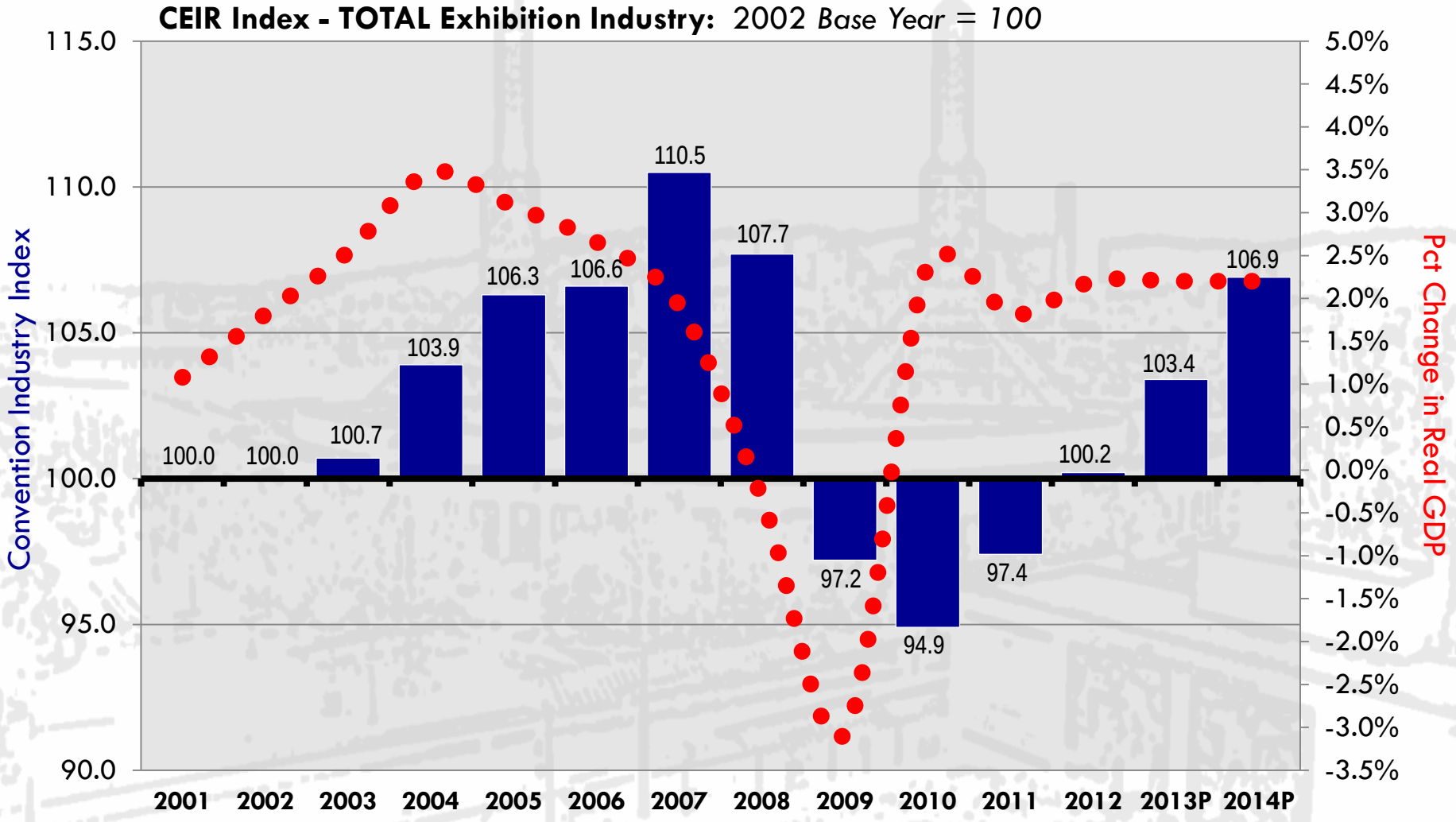
STATE OF THE INDUSTRY



Source: Center for Exhibition Industry Research; Bureau of Economic Analysis.

STATE OF THE INDUSTRY

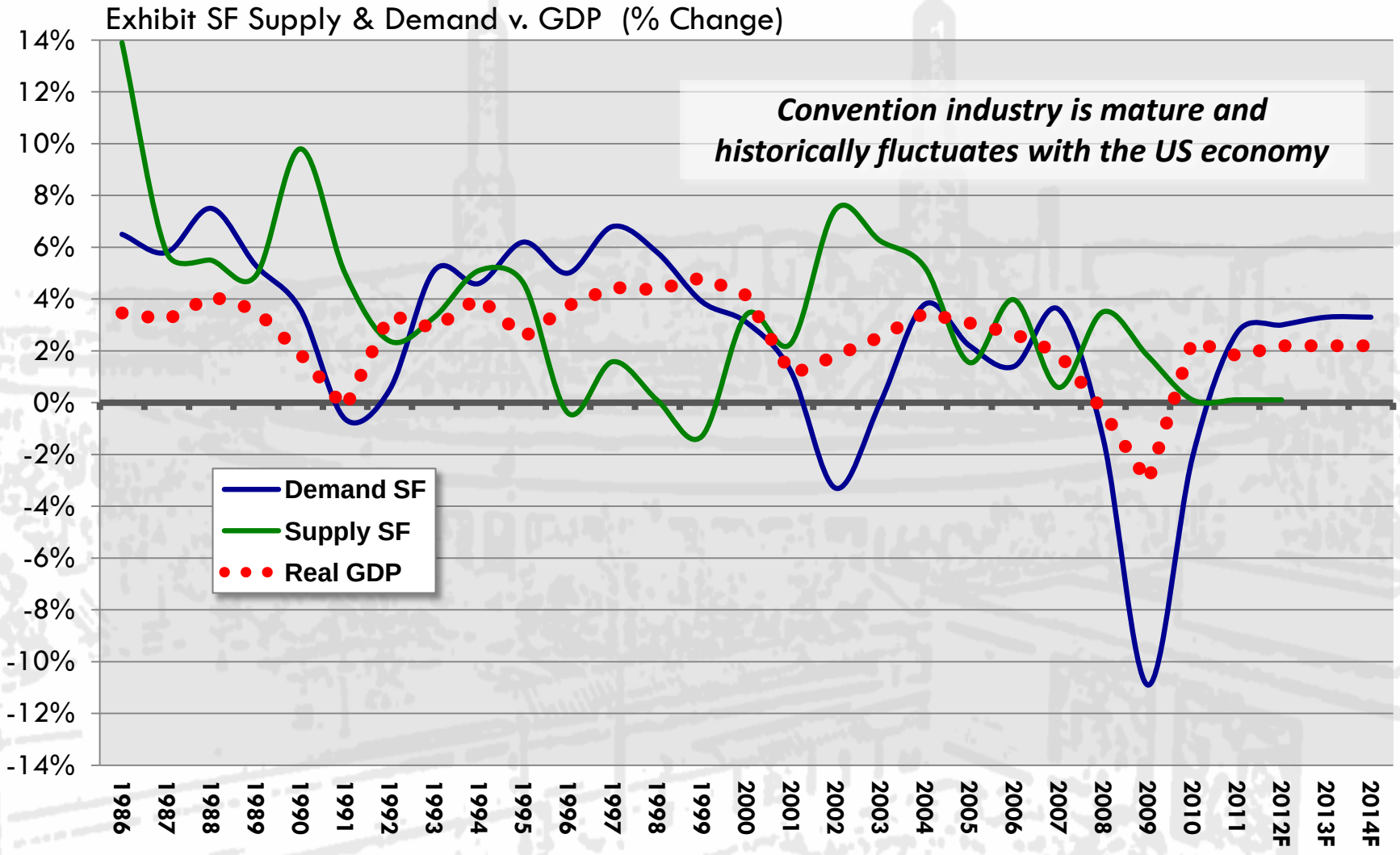
US Convention Center Market



Source: Center for Exhibition Industry Research; Bureau of Economic Analysis; CBO.

STATE OF THE INDUSTRY

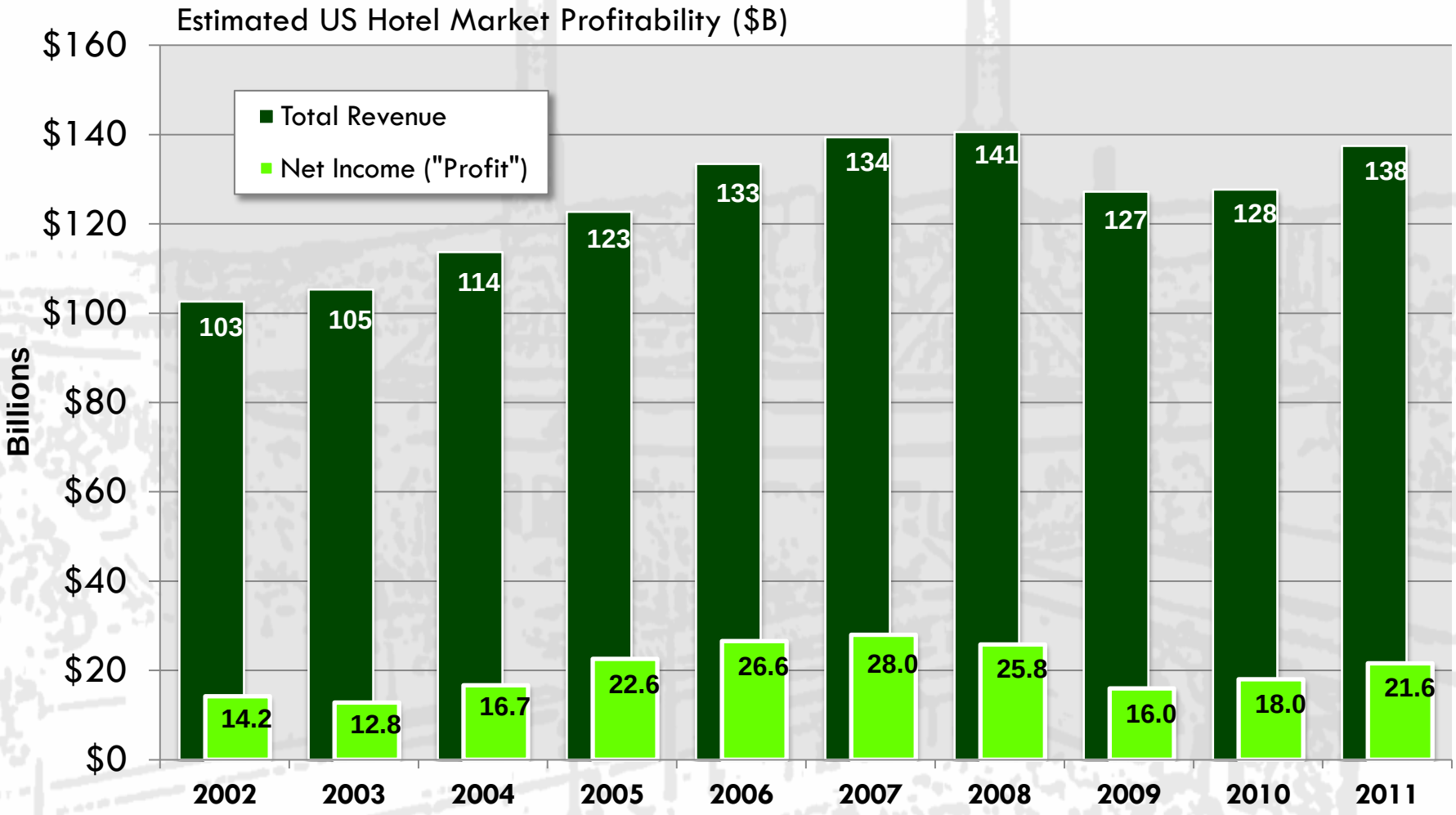
US Convention Center Market



Source: Center for Exhibition Industry Research; CBO; Bureau of Economic Analysis; TradeShow Week; PwC.

STATE OF THE INDUSTRY

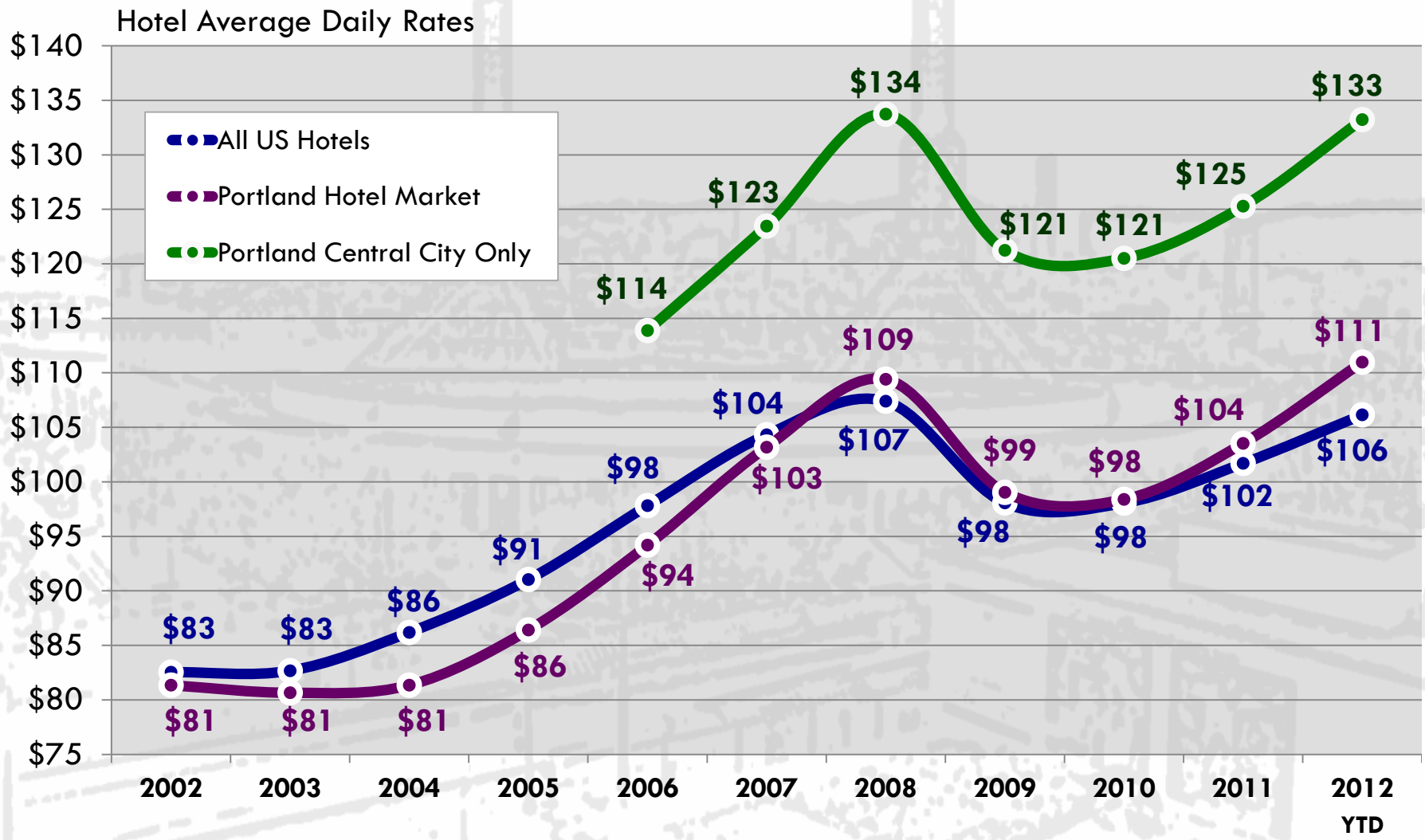
US Hotel Market



Source: Smith Travel Research.

STATE OF THE INDUSTRY

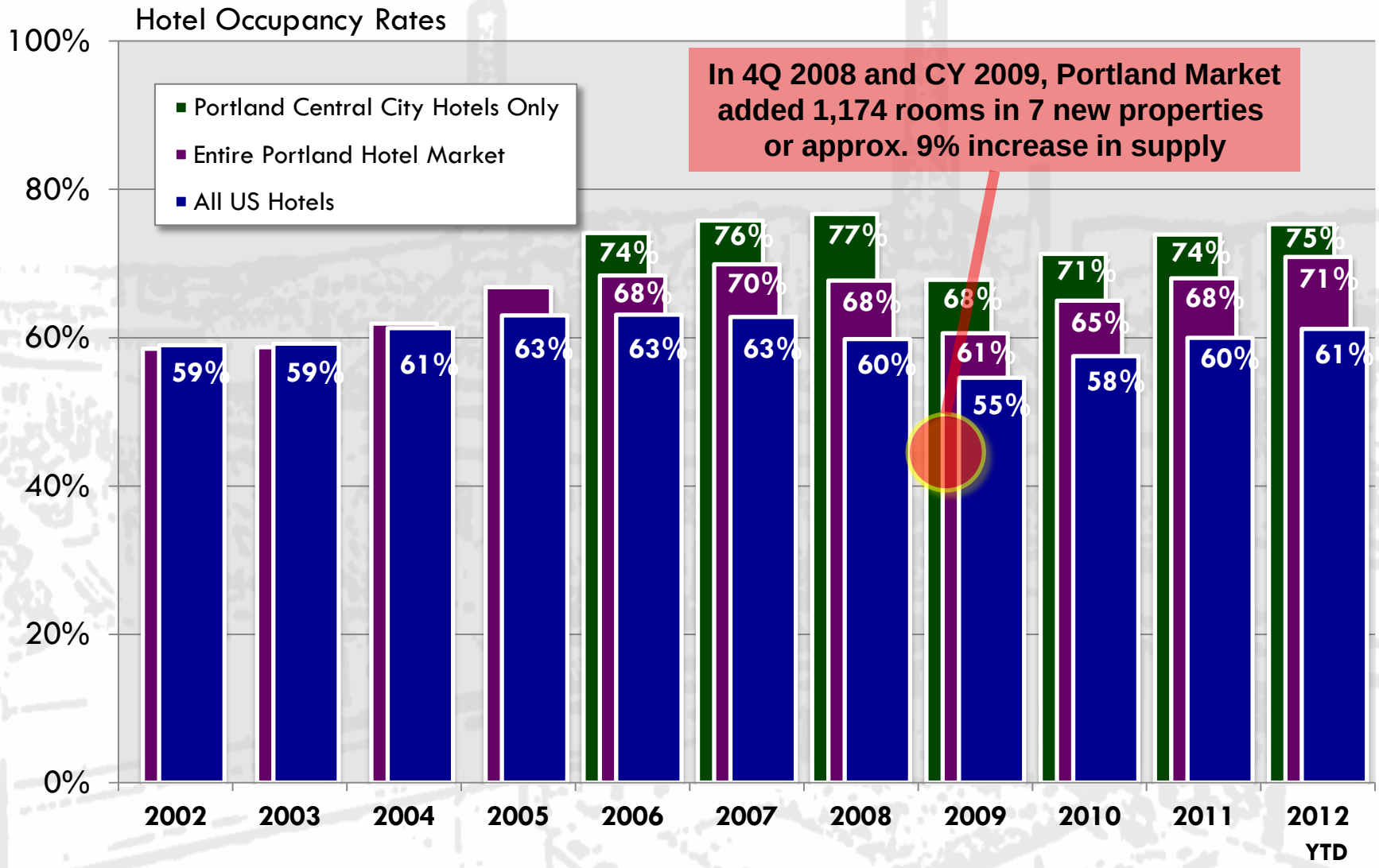
US v. Portland Hotel Market



Source: Smith Travel Research.

STATE OF THE INDUSTRY

US v. Portland Hotel Market



Source: Smith Travel Research.

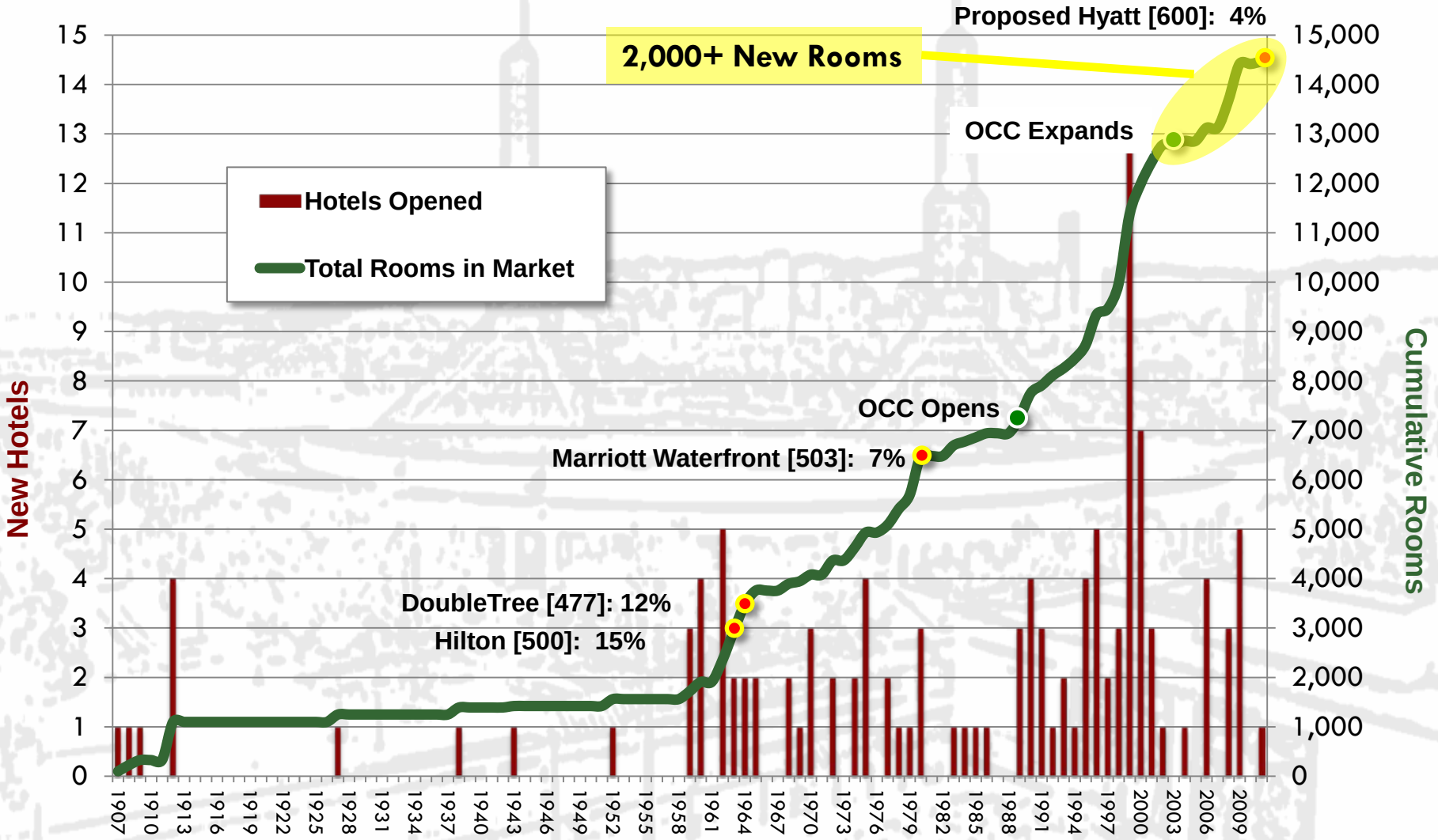
STATE OF THE INDUSTRY

Portland v. Comp Set Hotel Markets

		YTD September 2012					
	Competitive Hotel Market	**Occup'y**	*Rank*	**ADR**	*Rank*	**RevPAR**	*Rank*
1.	San Francisco Market St	81.3%	1	$192.69	1	$156.75	1
2.	Seattle Downtown	79.3%	2	155.99	3	123.65	3
3.	Portland Central City	78.0%	3	136.13	8	106.13	6
4.	San Diego Downtown	77.9%	4	172.87	2	134.71	2
5.	Austin Downtown	76.9%	5	153.81	4	118.28	4
6.	Anaheim Disneyland	76.9%	6	136.44	7	104.88	7
7.	Long Beach	74.0%	7	115.46	10	85.42	9
8.	Denver Downtown	72.6%	8	148.05	5	107.46	5
9.	Pittsburgh CBD	70.3%	9	143.64	6	101.02	8
10.	Sacramento Downtown	68.3%	10	101.70	12	69.43	12
11.	Salt Lake Downtown	67.4%	11	114.64	11	77.29	11
12.	Phoenix Central	60.5%	12	130.75	9	79.17	10
13.	Albuquerque CDB	56.2%	13	84.25	13	47.34	13

Source: Smith Travel Research.

PORTLAND HOTEL SUPPLY



Source: Smith Travel Research, Individual properties.

Does a Convention Hotel Make a Difference in Portland?

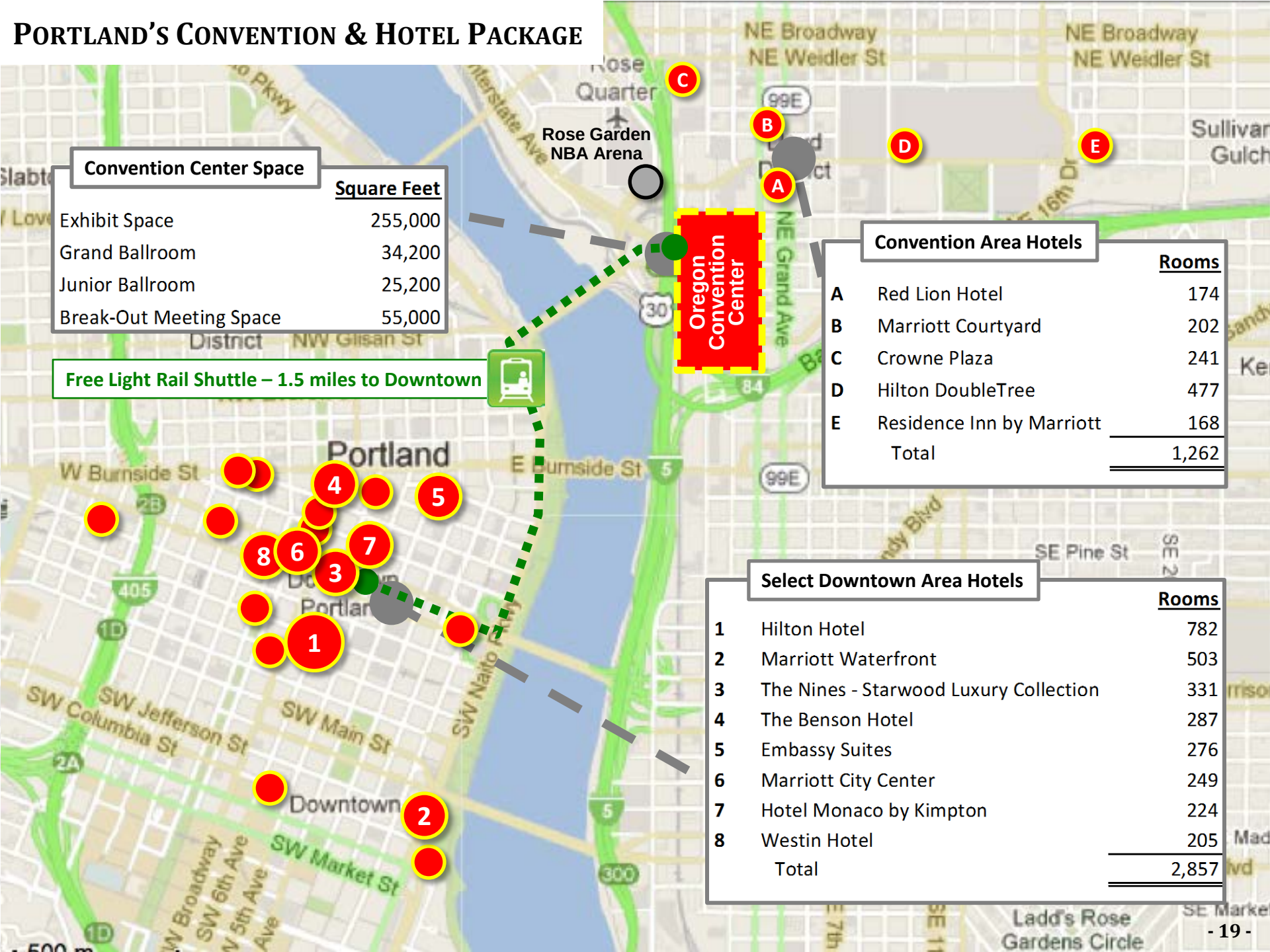
MEETING PLANNER SURVEY

- In November 2012, SAG surveyed 1,172 Meeting Planners
- Represented Regional/National Events
- 135 Total Responses Received

Meeting Planner Survey

- ACRP Global Conference and Exhibition
- AIFD Symposium
- America Association of Immunologists
- American Academy of Cosmetic Dentistry
- American Accounting Association
- American Alliance of Museums
- American Association of Orthodontists
- American Bar Association
- American Dental Education Association
- American Hospital Association
- American Institute of Chemical Engineers
- American Jail Association
- American Orthopaedic Soc. Sports Medicine
- American Phytopathological Society
- American Sewing Guild
- American Society Brewing Chemists
- American Society for Quality
- American Specialty Toy Retailing Assn.
- American Urogynecologic Society
- ASA, CSSA, and SSSA International
- ASA/CSSA/SSSA Joint Annual Meetings
- ASHRAE
- ASMS Conference on Mass Spectrometry
- Association for Computing Machinery
- Assn. Infection Control & Epidemiology, Inc.
- Association Management Center
- Association of Air Medical Services
- Association of College & Research Libraries
- Association of State Floodplain Managers
- Automotive Parts Remanufacturers Assn.
- Capella University
- CareFusion: National Sales Meeting
- Cat Fancier's Association
- Community Transportation Association
- CompTIA
- Conference & Logistics Consultants
- ConferenceDirect
- Connect Marketplace
- COSUGI & IUG
- Courtesy Associates
- Design Automation Conference
- DMAI Annual Convention
- Ecological Society of America
- Enterprise Data World
- Evangelical Lutheran Church in America
- Experient Inc.
- FCC Annual Meeting
- Hanley Wood
- Health Care Compliance Association
- HELI-EXPO: Helicopter Association International
- HelmsBriscoe
- Human Factors and Ergonomics Society
- IMN Solutions
- Independent Electrical Contractors
- Institute for Operations Research
- Intel ISEF
- International Parking Institute Conference & Expo
- International Society for Optical Engineering
- International Union of Bricklayers
- Investment Management Consultants Assn.
- Kaiser Foundation Health Plan, Inc.
- Mary Kay Career Conference
- Maxvantage Meetings
- Medical Library Association
- MGMA-ACMPE
- NADA Convention
- NARFE National Convention
- National Association of Black Accountants
- National Association of University Food Services
- National Association of Independent Schools
- National Assn. of Mutual Insurance Companies
- National Association of Neonatal Nurses
- National Conference on Family Literacy
- National Forum for Black Public Administrators
- National Guard Bureau Operations
- National Service-Learning Conference
- National Sheriffs' Association
- National Student Nurses Association
- Netsmart Technologies
- North American Beekeeping Assn.
- Oregon DECA
- Oregon Dental Association
- Par Avion Meetings & Conventions
- Presiding Judges Training
- Public Library Association
- SAE International
- Scientific Society: AACC International
- Society for American Archaeology
- Society for Technical Communication
- Society of American Military Engineers
- Society of Cardiovascular Anesthesiologists
- Society of Petroleum Engineers
- Society of Quality Assurance
- SolutionTree
- Subway Annual Convention
- TAPPI PEERS Conference
- TESOL International Association
- The International Gathering of Presbyterian Women
- The United Methodist Church
- UBM, LLC
- United Natural Foods, Inc.
- University of Florida
- USCAP
- Veterans of Foreign Wars
- Worldwide Distributors
- Wound, Ostomy and Continence Nurses Society

PORTLAND'S CONVENTION & HOTEL PACKAGE

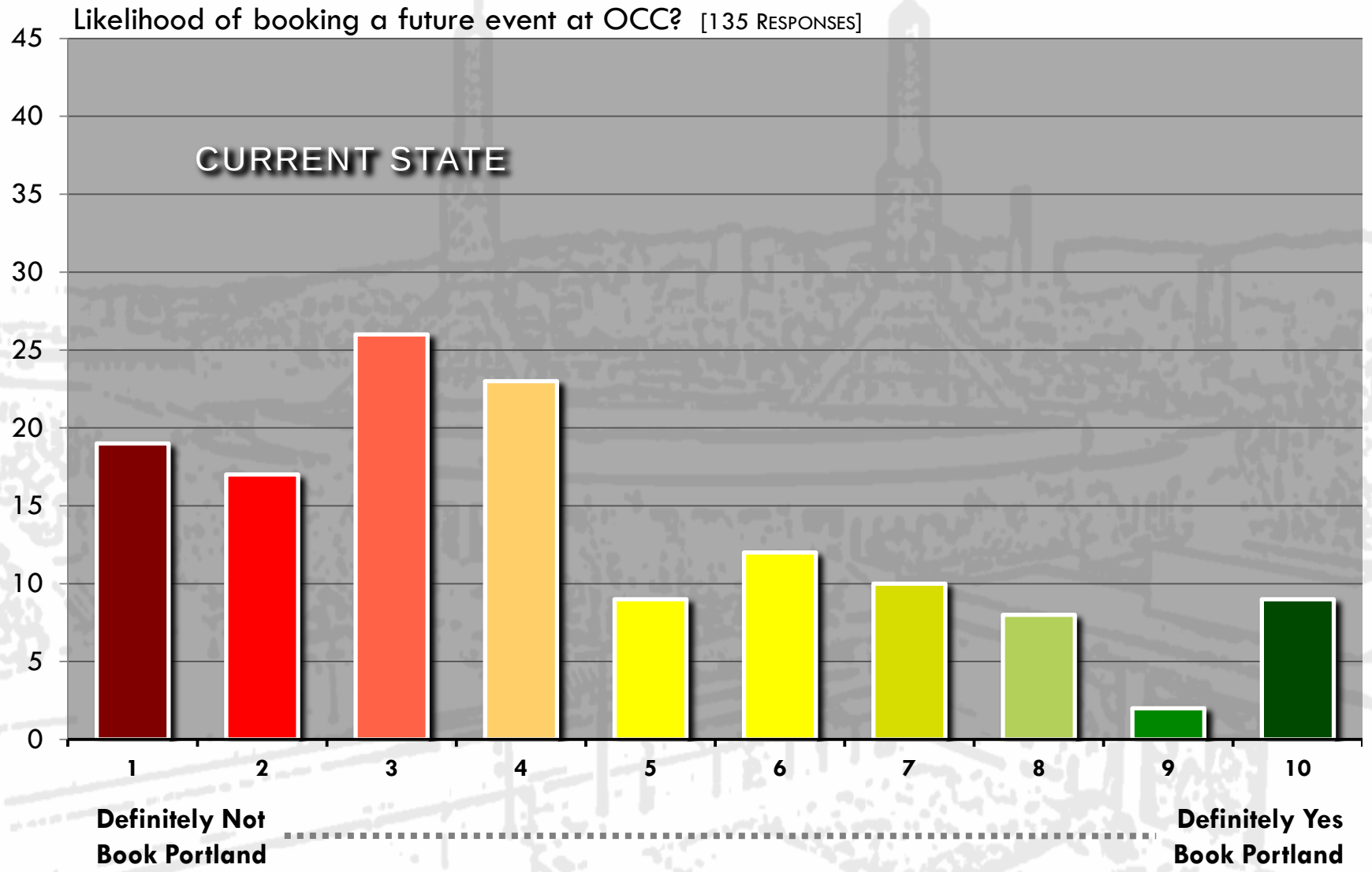


Convention Center Space	Square Feet
Exhibit Space	255,000
Grand Ballroom	34,200
Junior Ballroom	25,200
Break-Out Meeting Space	55,000

	Convention Area Hotels	Rooms
A	Red Lion Hotel	174
B	Marriott Courtyard	202
C	Crowne Plaza	241
D	Hilton DoubleTree	477
E	Residence Inn by Marriott	168
	Total	1,262

	Select Downtown Area Hotels	Rooms
1	Hilton Hotel	782
2	Marriott Waterfront	503
3	The Nines - Starwood Luxury Collection	331
4	The Benson Hotel	287
5	Embassy Suites	276
6	Marriott City Center	249
7	Hotel Monaco by Kimpton	224
8	Westin Hotel	205
	Total	2,857

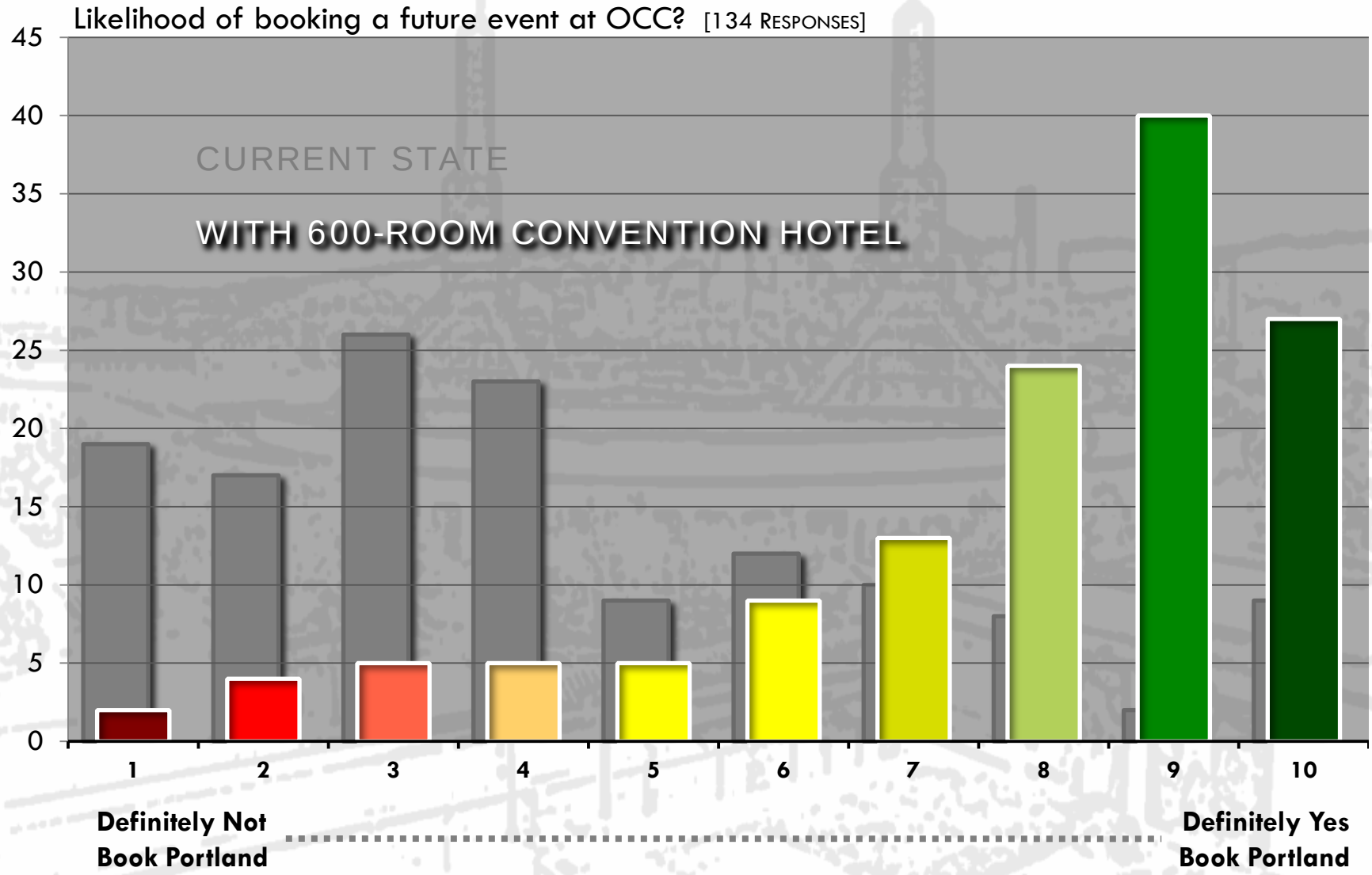
MEETING PLANNER SURVEY



Source: SAG Meeting Planner Survey.


Oregon Convention Center
Proposed 600-room Convention Hotel

MEETING PLANNER SURVEY



Source: SAG Meeting Planner Survey.

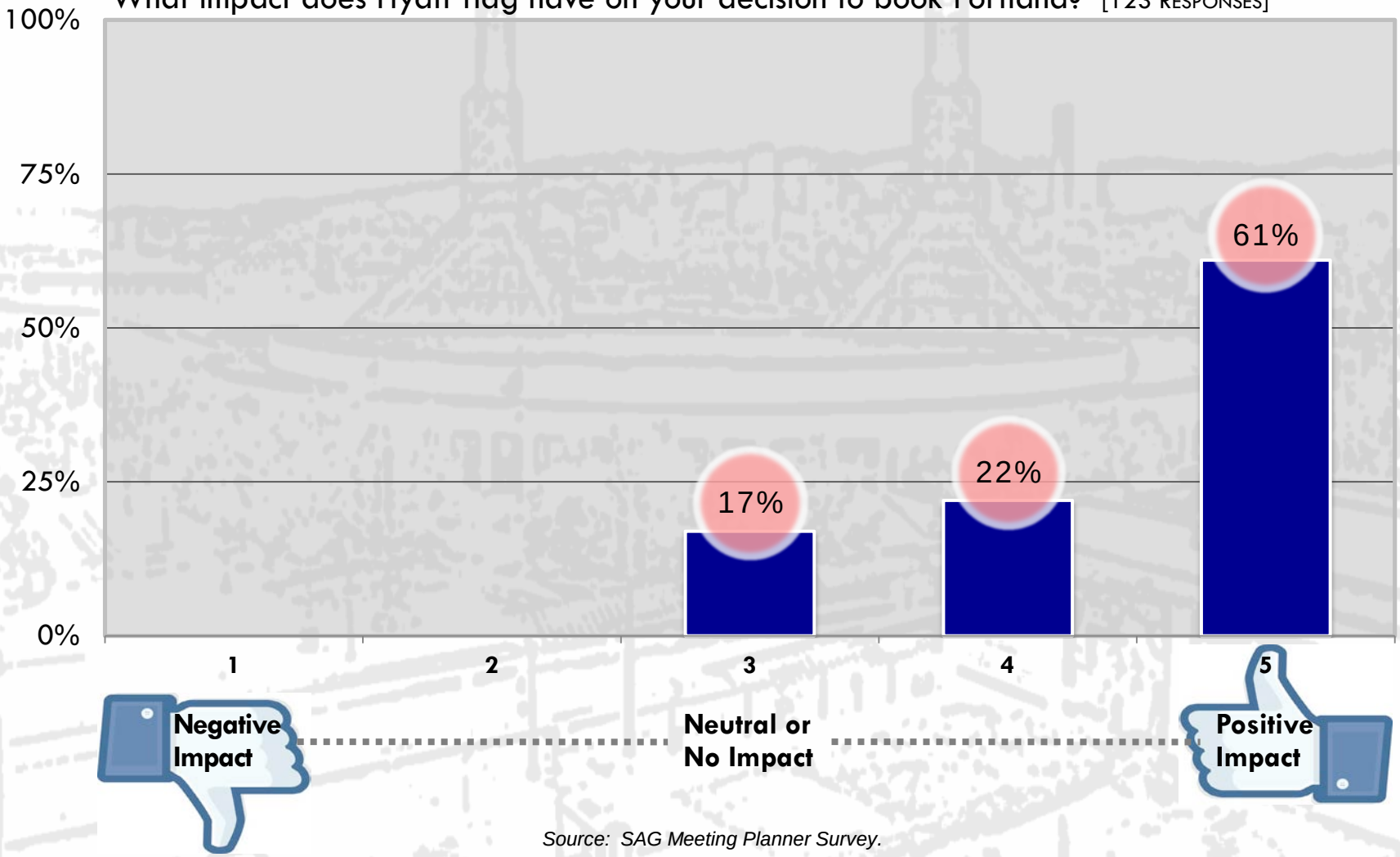
MEETING PLANNER SURVEY

[Groups going from 1 to *7* "*Without*" to 10 "*With*" OCC Hotel]

- Association Management Center
- Association of Medical Air Services
- Connect MarketPlace
- National Association of College & University Food Services
- Society of Quality Assurance
- TAPPI PEERS Conference (Paper & Pulp Industry)
- United Natural Foods, Inc.
- University of Florida Office of Conferences & Institutes
- Veterans of Foreign Wars of the United States

MEETING PLANNER SURVEY

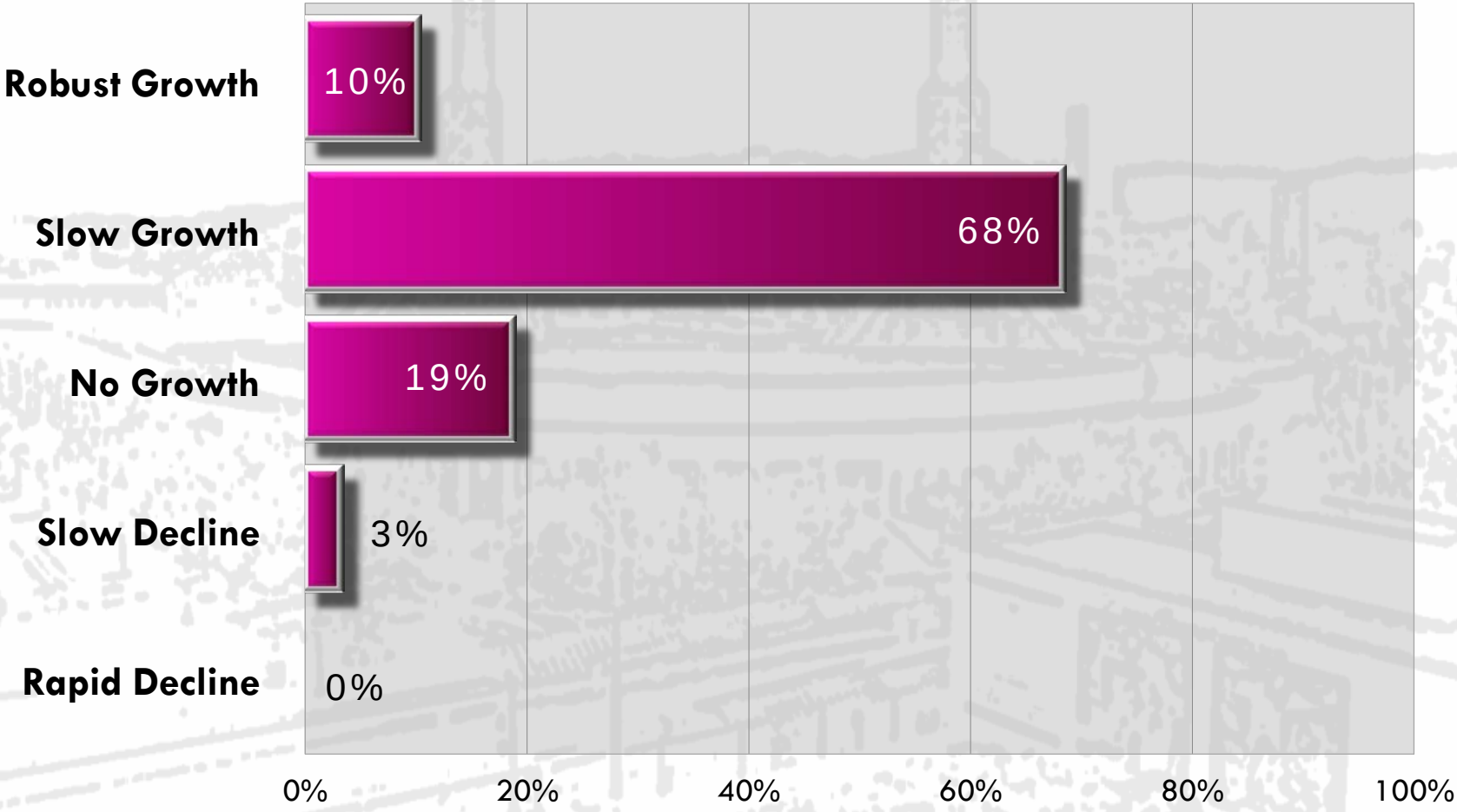
What impact does Hyatt flag have on your decision to book Portland? [123 RESPONSES]



Source: SAG Meeting Planner Survey.

MEETING PLANNER SURVEY

Given the recent recession and changes in the economy, how does your event most likely view its future? [129 RESPONSES]



Source: SAG Meeting Planner Survey.

What Is the Projected ROI of a Convention Hotel in Portland?

ECONOMIC & FISCAL IMPACT: PROPOSED OCC HOTEL

Economic Impacts	Construction	Annual Operations
Spending		
Direct	$182.8m	$69.6m
Indirect & Induced	137.4m	51.6m
Total Spending	$320.2m	$121.2m
Jobs	2,200	950



Fiscal Impacts - 32 Yr Period*

	Total	NPV
City	$95.1m	$21.1m
Other Local	17.6m	8.4m
Metro	13.3m	5.2m
County	24.9m	11.9m
State	179.2m	80.8m
Total Fiscal Impact	$330.1m	$127.4m

* Includes construction period.
Source: Mortenson, IMPLAN, DMAI, SAG.

Is Hyatt/Mortenson Proposal Reasonable?

THE HYATT DEAL

- Early stage of project – costs, financing and returns not yet determined
- More analysis is required as design, construction costs and financing are determined and budget is fine-tuned
- Public sector invests in meeting space & the room block agreement
- For informational purposes, recent case studies are described below

Source: Based on preliminary discussions with the development team.

DEAL CASE STUDIES

	Charlotte Westin 2002	Denver Hyatt 2004	Houston Hilton 2004	Louisville Marriott 2005	San Diego Hilton 2008
Rooms	707	1,100	1,200	616	1,190
Development Cost	$143m	$247m	$285m	$100m	$348m
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Source: Hotels, Developers, SAG.

Deal Case Studies

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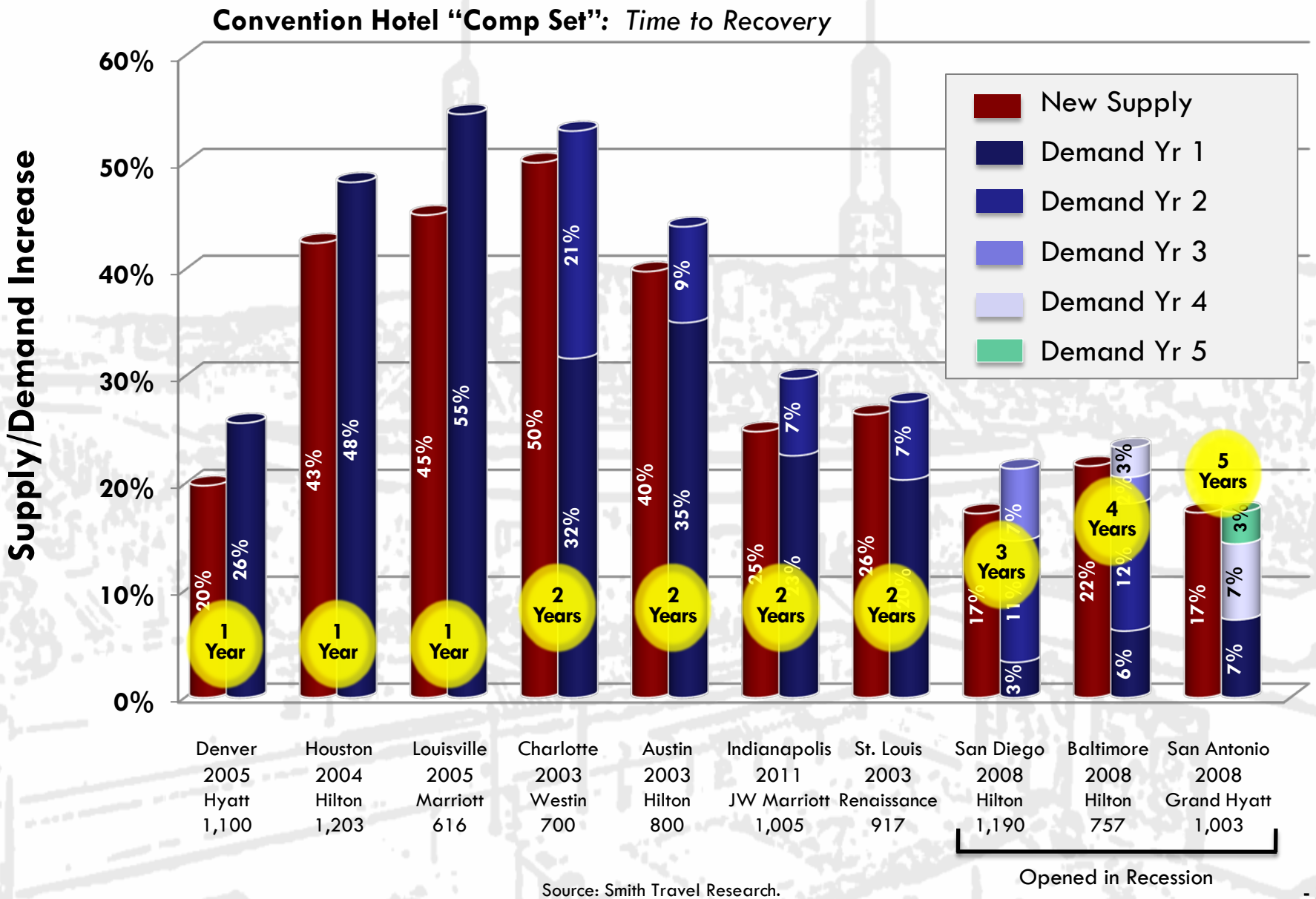
Source: Hotels, Developers, SAG.

Do Convention Hotels Impact their existing Hotel Market?

CASE STUDIES: *BEFORE & AFTER*

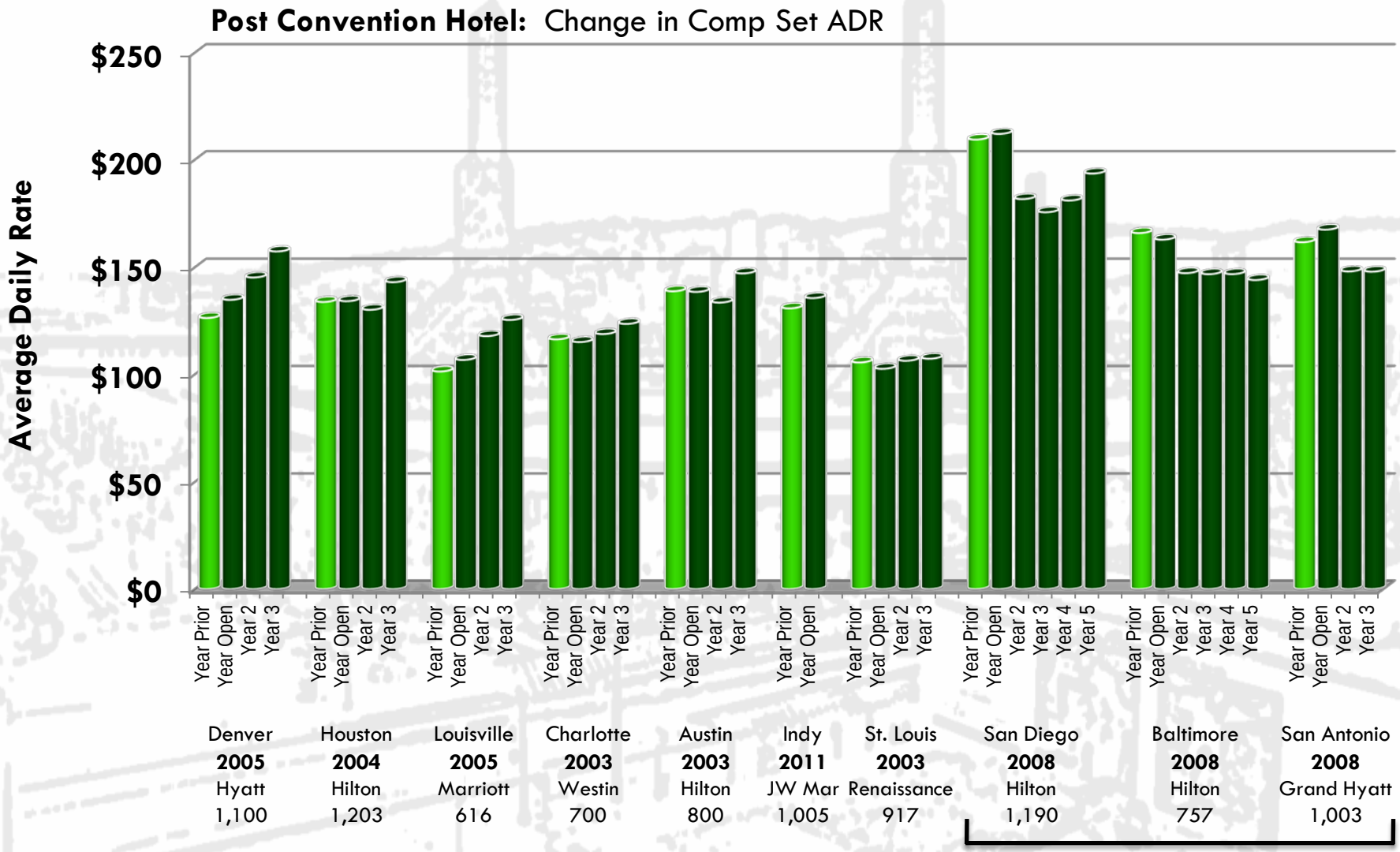


CASE STUDIES: SUPPLY & DEMAND



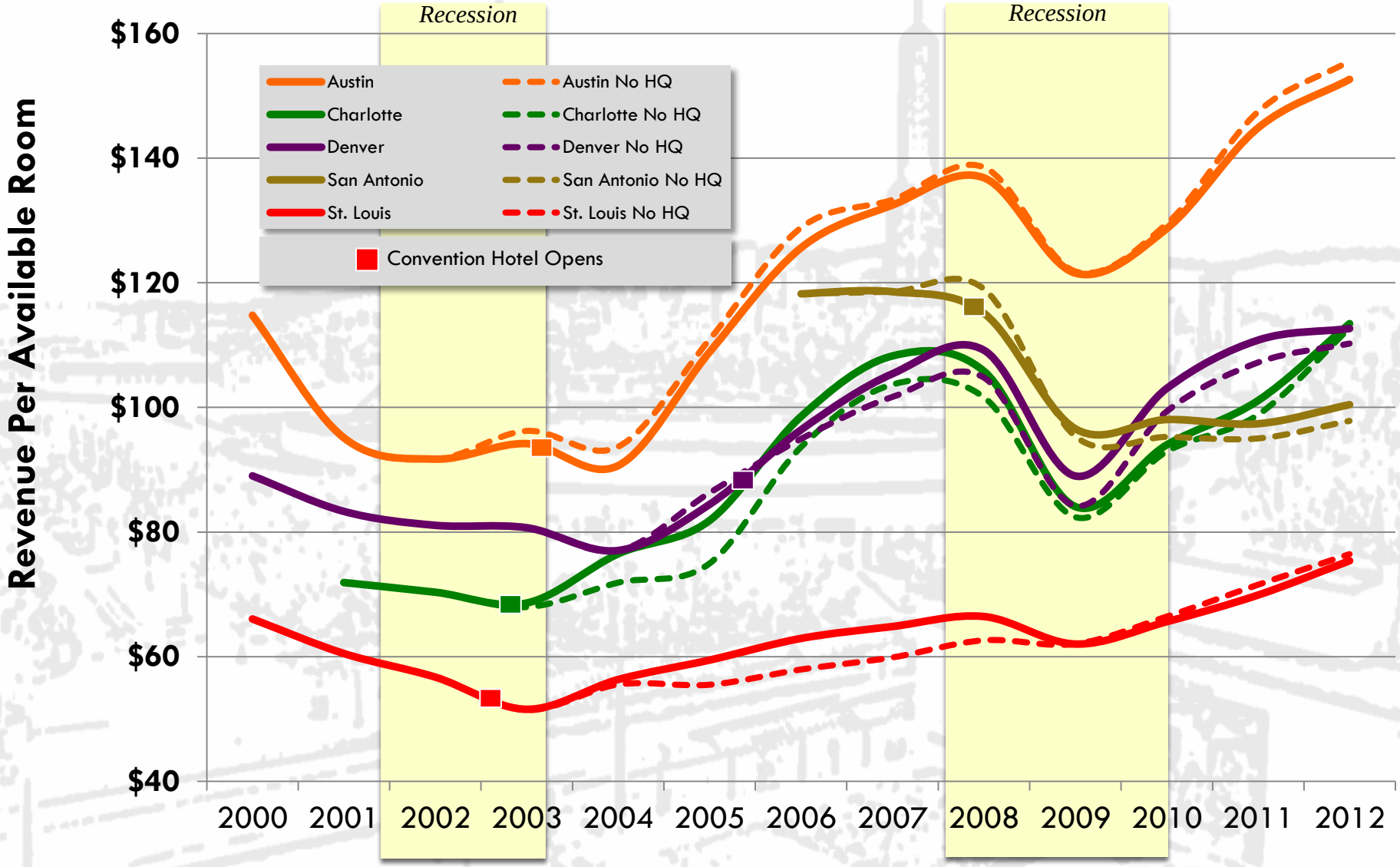
Source: Smith Travel Research.

CASE STUDIES: COMP SET ADR



Source: Smith Travel Research.

Competitive Set RevPAR



Source: Smith Travel Research.

What is the Projected Impact of OCC Hotel Impact on Portland Hotel Market?

New City-Wide Demand

- Based on the meeting planner survey, and as further supported by the TAP Analysis and Travel Portland lost business reports, the presence of a 600-room Convention Hotel could help Portland attract approximately 5 to 10 new convention groups annually
 - Average group size ~ 4,000 total room nights per event
 - Equates to 20,000 to 40,000 new convention group room nights in Portland market

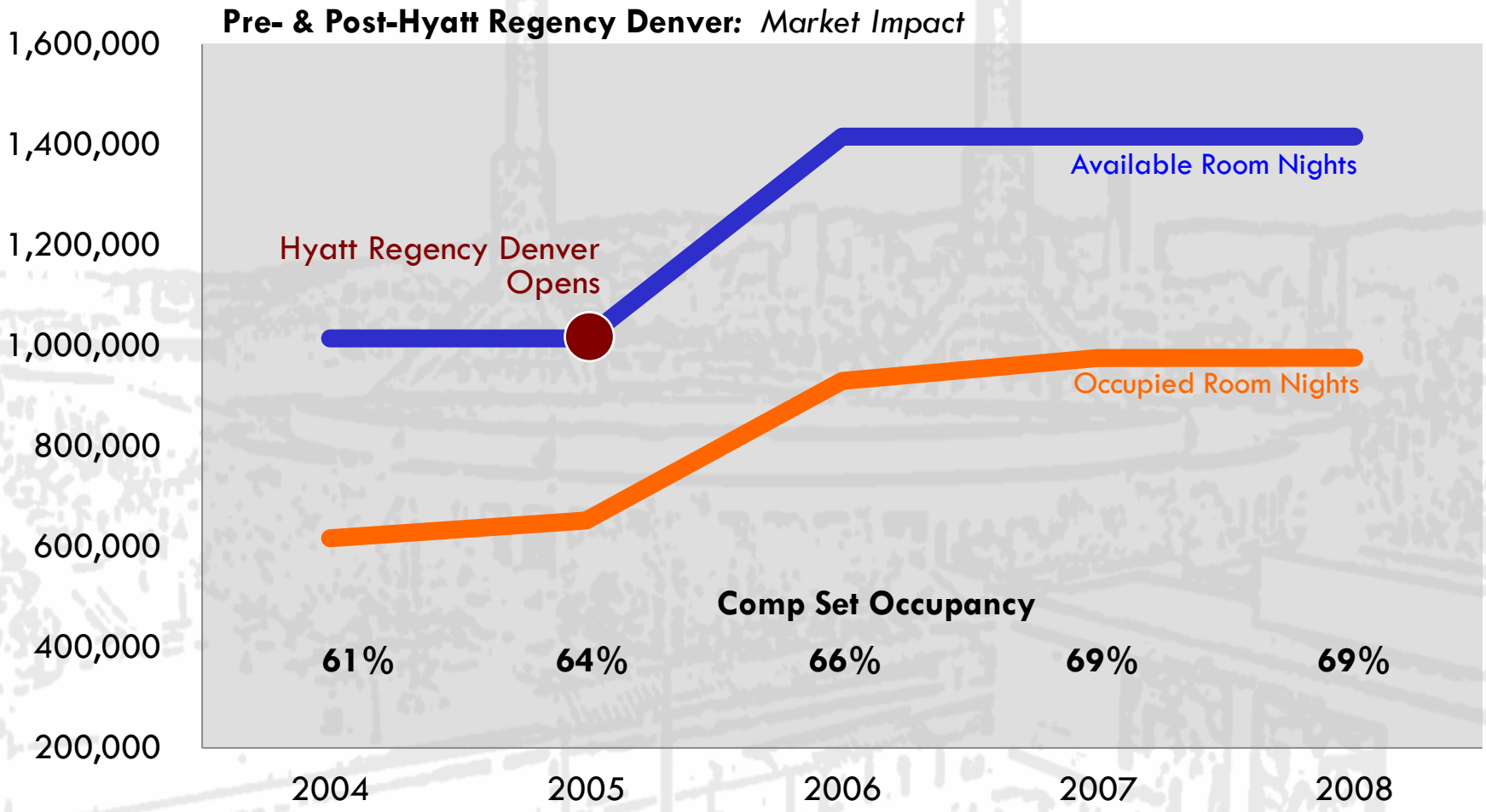
New Hyatt In-house Demand

- Hyatt hotels worldwide sales team
 - 147 Account Executives
 - 22 Sales offices worldwide
 - Average $27M in rooms revenue for convention hotels
- Hyatt in-house team produces approximately 70% of all group business for its convention hotels
 - SAG projected 50% to 70%
- Hyatt estimates approximately 100,000 total group room nights annually at Portland Hyatt Regency
 - Could generate 50,000 to 70,000 new group room nights in Portland hotel market

HYATT CASE STUDY: DENVER

- **Pre-Booking:** Hyatt Worldwide Sales Office pre-booked over $108M worth of group business for the Denver Convention Hotel from 2003 through 2005
- **Post-Opening:** To date, WWSO has over $193M in revenue booked through 2017
- **WWSO Contribution:** In Denver, the WWSO contributed between 70% and 88% of new group demand business

HYATT CASE STUDY: DENVER



Source: Smith Travel Research; Hyatt Hotels.

IMPACT ON PORTLAND MARKET

- **The proposed OCC Hotel could generate significant new room nights for the Portland hotel market:**
 - **New OCC City-Wide Groups:** 20,000 to 40,000
 - **New Hyatt In-House Groups:** 50,000 to 70,000
 - **TOTAL:** 70,000 to 110,000
- **Assuming a total of 80,000 new room nights, the impact on Portland's market-wide occupancy:**
 - **Year prior to OCC Hotel:** 72.2%
 - **Year 1 with OCC Hotel:** 72.1%
 - **Year 2 with OCC Hotel:** 73.6%

Summary

SUMMARY

- **Is OCC achieving its goals?**
 - The OCC accomplishes its mission of generating economic impact for the metro region
 - Lost business reports claim that a large convention hotel could further the OCC mission

SUMMARY

- **What is the state of the convention industry?**
 - The convention and hotel industries have nearly fully recovered from '08-'09 economic recession
 - Majority of meeting planners see at least slow to moderate growth in their events foreseeable future
 - The Portland hotel market, particularly the Central City area, continues to be robust, leading the national average annually by 10% to 15% occupancy points over past 7+ years
 - Total room demand in the market increased an average of 87,000 room nights each year from 2001 to 2012

SUMMARY

- **Does OCC Hotel make a difference in Portland?**
 - Survey of 135 meeting planners substantiate the lost business reports and responded that the proposed OCC Hotel would make a difference in their selection process

SUMMARY

- **Do convention hotels impact existing hotels?**
 - Case studies of other comparable convention hotel projects support the projection that the proposed OCC Hotel could be absorbed into the Portland marketplace within the first few years of operations

SUMMARY

- **What could be the impact in Portland?**
 - Meeting planner surveys, Hyatt in-house sales team, and other sources suggest the proposed OCC Hotel could further growth in the overall market by 70,000 to 110,000 room nights each year
 - Based on the projections, the impact of the proposed OCC Hotel on existing market wide occupancy in Portland would be negligible (-0.1%) in the first year of operations, and overall market occupancy would increase by 1.4% in year 2

SUMMARY

- **What could be the impact in Portland?** *(cont.)*
 - The incremental economic impact generated by the new demand brought on by the proposed OCC Hotel exceeds $120M annually
 - Only a large convention hotel offering a significant and proximate room block would enable Portland to garner the potential new demand

SUMMARY

- **Other Considerations?**
 - With the 75%+ occupancy rates in Central City area, other new (albeit smaller) hotels are highly likely to be built anyway but would strictly cannibalize the existing market demand
 - In last decade, over 2,100 new rooms in 22 new hotels were added to the Portland market with an average size of less than 100 rooms per hotel
 - Not what the meeting planners need to select Portland

SUMMARY

- **Other Considerations?** *(cont.)*
 - Ultimately, the "arms race" will come down to destination appeal:

Does Portland believe in its uniqueness and ability to attract?